CAIIB 2026

Central Banking

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CHAPTER 01

Theory and Practice of Central Banking Evolution

May/June 2016

1. Which of the following statements correctly describes the establishment of the Riksbank in Sweden?
(A) Established in 1897 as a state-owned bank
(B) Endowed with an initial note issue monopoly
(C) Founded for private business commercial loans
(D) Founded in 1668 to lend funds to Government

Oct/Nov 2009

2. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): In 1997, the Bank of England was granted operational independence.
Reason (R): The Chancellor effectively delegated the power to set interest rates to the Bank of England.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

3. Consider the following statements regarding the initial functions of central banks:
I. Wherever multiple organizations were involved in the note issue function, controlling the quantum and quality of currency was difficult.
II. A system of multiple note-issuing organizations led to the strengthening of the internal and external value of currency.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2018

4. A collection of distinct sovereign states unifies into a single federal nation. However, commerce is hindered because each state uses different regulations, coins, and weights. To integrate these separate financial entities and create a transparent monetary regime, the government establishes a central bank.
This scenario most closely aligns with the historical rationale for setting up which central bank?
(A) Bank of England
(B) Banque de France
(C) Bundesbank
(D) Banco de Portugal

May/June 2007

5. Consider the following statements regarding the adoption of international codes and standards by central banks:
I. It helps central banks resolve dilemmas related to preserving their autonomy from political pressures.
II. It increases the likelihood of crisis situations by standardizing market risks.
III. It enables central banks to embrace policies of transparency in financial governance.
IV. It enforces accountability to the public in major areas of operations.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

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Oct/Nov 2025

6. The Federal Reserve's "dual mandate" refers to which two key objectives for monetary policy?
(A) Maintaining financial stability and providing services to depository institutions
(B) Maximizing employment and stabilizing prices
(C) Stabilizing prices and moderating long-term interest rates
(D) Maximizing employment and managing government debt

May/June 2012

7. What was the primary stimulus for establishing central banks and strengthening their activities in many parts of the world in the twentieth century?
(A) Facilitating cross-border international trade
(B) Exigency of war financing
(C) Management of foreign exchange reserves
(D) Adoption of international regulatory standards

Oct/Nov 2014

8. In which year was the Bank of England founded under a Royal Charter?
(A) 1946
(B) 1694
(C) 1997
(D) 1791

May/June 2019

9. Consider the following statements regarding the Bank of France:
I. It was initially granted the exclusive privilege to issue bank notes in Paris for a period of 15 years.
II. Its note-issue privilege was extended to cover the whole of France in 1848.
III. It was nationalized in 1946 and its note-issue privilege was extended for an indefinite period.
IV. Statutes approved in 1973 removed the French minister of finance's control over its dividend payments.
V. It was granted independence in 1993 to ensure price stability, regardless of domestic politics.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and IV

Oct/Nov 2006

10. Consider the following lists of countries and the years their central banks were established. Match the country in List I with the year in List II:
List I: (Country)
P. Belgium
Q. Portugal
R. Italy
S. Japan
List II: (Year of Establishment)
1. 1893
2. 1850
3. 1882
4. 1846
(A) P-1, Q-3, R-4, S-2
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-2, S-4

May/June 2021

11. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): The structure of the Federal Open Market Committee (FOMC) is considered unique among central banks.
Reason (R): It consists of all seven members of the Board of Governors and the twelve regional bank presidents, but only five bank presidents vote at any given time.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

12. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): Maintaining a stable external value of money assumes critical importance for

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central banks.
Reason (R): Undue volatility in exchange rates creates uncertainty in foreign exchange markets and distorts international trade transactions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

13. Consider the following lists regarding the history of the Bank of England. Match the historical event in List I with the corresponding year/period in List II:
List I: (Historical Event)
P. South Sea Bubble crash
Q. Renewal of Charter describing it as 'public exchequer'
R. Bank Charter Act granting monopoly to print notes
S. Nationalisation of the Bank of England
List II: (Year/Period)
1. 1946
2. 1844
3. 1791
4. 1720s
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2022

14. The operational practice of central banking often revolves around choosing between strict regulatory frameworks and flexible judgments based on specific economic scenarios. What is this practice formally referred to as?
(A) Autonomy vs Accountability
(B) Deepening vs Widening
(C) Rules vs Discretion
(D) Regulation vs Supervision

May/June 2018

15. The Federal Reserve System was established following the enactment of the Federal Reserve Act in response to which specific event?
(A) The South Sea Bubble crash of the 1720s
(B) The financial crisis of 1848
(C) The Great Depression of the 1930s
(D) Financial panics, notably the panic of 1907

Oct/Nov 2016

16. How is the external value of money defined?
(A) Rate of domestic currency expressed in foreign terms
(B) Purchasing power within the specific domestic economy
(C) Total volume of gold reserves backing the currency
(D) Interest rates applicable to overnight bank lending

May/June 2014

17. Consider the following lists regarding central banks and their founding rationale. Match the central bank in List I with its specific rationale or nature in List II:
List I: (Central Bank)
P. Banco de Portugal
Q. Bundesbank
R. Bank of Italy
S. Federal Reserve
List II: (Founding Rationale / Nature)
1. Created to free itself from inherited problems by cleaning the balance sheet and restoring a capital base
2. A note issuing commercial bank whose main job was maintaining convertibility of its notes and making a profit
3. Established in response to a series of financial panics to centralize control of the monetary system
4. Set up with the rationale to have a uniform system of coinage, weights, and measures
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-4, R-2, S-3

Oct/Nov 2007

18. Arrange the establishment of the following central banks in chronological order from earliest to latest:
I. Bank of France
II. Bank of Japan
III. Bank of Spain
IV. Bank of Finland
Which of the following is the correct sequence?
(A) I, IV, III, II
(B) I, III, IV, II

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(C) IV, I, II, III
(D) IV, III, I, II

May/June 2025

19. During a severe market crash, multiple small regional banks face acute liquidity shortages and are on the verge of bankruptcy. They approach the central banking institution for emergency funding to stay afloat. The central bank successfully bails them out.
Which historical event mirrors this specific function performed by the Bank of England?
(A) The formulation of the Bank Charter Act in 1844
(B) The funding of government debt during the First World War
(C) The operational independence granted in 1997
(D) Bailing out entities after the 1720s South Sea Bubble

Oct/Nov 2019

20. A central bank in an emerging economy faces a sudden, unprecedented supply-chain shock. Instead of strictly adhering to its pre-established, rigid inflation-targeting rules, the central bank decides to modulate its operational strategy to provide targeted liquidity support, considering the unique structural features of its economy.
This strategic decision exemplifies which central banking concept?
(A) The application of discretion over rules
(B) The strict enforcement of the Bank Charter Act
(C) The transition from fiscal dominance to monetary dominance
(D) The exclusive reliance on international standard-setting bodies

May/June 2009

21. Which of the following best defines the structural composition of the Federal Reserve System?
(A) Single centralized bank managed by the US President
(B) Entity governed by board regents and large owners
(C) Board, FOMC, twelve banks, member banks, and councils
(D) Federal agency of seven members of the Board

Oct/Nov 2011

22. An export-oriented business struggles to price its goods competitively because the domestic currency's value fluctuates unpredictably against foreign currencies on a daily basis. To resolve such systemic uncertainties and facilitate smooth international commerce, which specific responsibility must the central banking authority undertake?
(A) Monopolizing the issuance of bank notes
(B) Maintaining a stable external value of money
(C) Acting as the lender of the last resort
(D) Managing the payment and settlement systems

May/June 2010

23. Identify the incorrect statement regarding central banks in developing countries.
(A) Mandates transcended typical functions to encompass developmental pursuits
(B) Mandates included economic recovery and promoting growth
(C) Close coordination between fiscal and monetary policies
(D) Developmental roles successfully insulated central banks from fiscal dominance

Oct/Nov 2024

24. Arrange the following events related to the Bank of France in chronological order:
I. Granting of independence
II. Conversion of member countries to the Euro
III. Nationalization of the Bank
IV. Transformation of nine provincial banks into branches extending note-issue privilege to the whole of France
Which of the following is the correct sequence?
(A) IV, III, I, II
(B) III, IV, I, II
(C) IV, I, III, II
(D) I, III, IV, II

May/June 2017

25. Identify the correctly matched pair regarding the history of the Bank of England.
(A) William Paterson - Delegated the power to set interest rates in 1997
(B) Royal Charter of 1694 - Founded the Bank of England
(C) Gordon Brown - Noticed the nation's

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finances had been in disarray and proposed a central bank
(D) Bank Charter Act - Described the bank as the 'public exchequer'

Oct/Nov 2005

26. Why did central banks assume the exclusive monopoly of the note issue function over the years?
(A) To commercialize printing for government revenue
(B) To decentralize currency control across institutions
(C) To eliminate the need for maintaining gold reserves
(D) To ensure stability by preventing currency erosion

May/June 2020

27. What was a far-reaching objective of the reorganization of the Italian monetary and credit system when the Bank of Italy was founded?
(A) Uniform rules to stabilize currency and prevent crises
(B) Maximize employment and moderate interest rates
(C) Privatize all commercial banks for economic growth
(D) Act as clearing house and lend to government only

Oct/Nov 2015

28. Consider the following statements regarding the evolution of central banking roles:
I. The changing financial infrastructure necessitated the support of appropriate payment and settlement systems managed by central banks.
II. The genesis of a plethora of financial institutions reduced the regulatory and supervisory roles of central banks.
III. Central banks started evolving risk management systems to contain inherent risks posed by sophisticated financial instruments.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

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May/June 2013

29. Identify the incorrect statement about the Bank of France (Banque de France).
(A) Established in 1800 with private and state funds
(B) Control via Governor and Deputy Governor appointments
(C) Shareholder representation via 200 regents by top owners
(D) Bank was loosely connected with the state initially

Oct/Nov 2021

30. Adoption of international codes and standards recommended by major standard-setting bodies aims to achieve all of the following EXCEPT:
(A) Preserving central bank autonomy from political pressures
(B) Preventing crisis situations in the financial system
(C) Embracing policies of transparency and public accountability
(D) Removing the necessity for country-specific strategies

May/June 2024

31. Which of the following best represents the core of modern central banking functions that evolved over time?
(A) Monetary policy and acting as banker to government
(B) Lender of last resort and reserve requirements
(C) Note issue, monetary policy, and promoting growth
(D) Foreign exchange and private commercial loans

Oct/Nov 2008

32. How is Montesquieu's theory of separation of powers analogous to the debate on the roles of central banks?
(A) A bank should be the sole lender and note issuer
(B) The bank must be under the executive branch
(C) Single authority regulation/supervision conflict
(D) Monetary and fiscal policy sharing one body

May/June 2006

33. A regional Federal Reserve Bank generates substantial revenue from priced services and

interest on acquired assets. After compensating for all operating expenses, paying a 6% dividend on member banks' capital investments, and securing an account surplus, a massive net profit remains.
According to the structural framework of the Federal Reserve System, how must this remaining profit be legally allocated?
(A) Distributed proportionally among the privately owned US member banks
(B) Remitted entirely to the U.S. Treasury
(C) Retained by the regional Federal Reserve Bank as discretionary capital
(D) Used exclusively to purchase gold reserves

Oct/Nov 2017

34. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): In developed countries, any change in interest rates by central banks triggers an immediate response from the banking system and financial markets.
Reason (R): Developed countries are characterized by a well-diversified and strong financial super structure with both financial widening and deepening.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

35. To discourage banks from embracing complacent behaviour (moral hazard), a central bank employs certain measures. Which of the following is NOT one of these measures?
(A) Subjecting the affected bank to rigorous scrutiny of its balance sheet
(B) Providing unconditional financial bailouts at subsidized rates
(C) Extending support only at a penal rate of interest
(D) Strengthening supervisory and regulatory roles to avert shocks

Oct/Nov 2013

36. Consider the following statements regarding informal markets in developing countries:
I. These informal markets operate highly dependently on the organized money market.
II. The existence of informal markets considerably weakens the monetary transmission processes as interest rate signals generally do not affect their operations.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2015

37. Consider the following statements regarding the independence of the Federal Reserve System:
I. Its monetary policy decisions must be approved by the President and the executive branch of government.
II. It does not receive funding appropriated by the Congress.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2012

38. A country is engaged in a prolonged military conflict. To fund the war effort, the government forces the central bank to continuously purchase its debt. Consequently, the central bank prints massive amounts of currency, leading to hyperinflation and eroding the purchasing power of the citizens.
This scenario highlights the structural conflict between which two specific roles of the central bank?
(A) Debt manager to the government and pursuer of price stability
(B) Regulator of financial entities and supervisor of markets
(C) Lender of the last resort and manager of the payment system
(D) Issuer of currency and custodian of foreign exchange reserves

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May/June 2011

39. A nation's central bank is responsible for both setting monetary policy and conducting on-site supervision of commercial banks. Critics argue that the central bank might keep interest rates artificially low to prevent struggling commercial banks from failing, thereby compromising its inflation targets.
To resolve this dilemma based on practices established in the UK in 2000, what structural reform should the nation implement?
(A) Subordinate the central bank to the Ministry
(B) Merge the bank with largest commercial banks
(C) Adopt a strict Gold Standard for policy
(D) Establish a separate supervisory authority

Oct/Nov 2020

40. Consider the following statements regarding central banks acting as bankers to the government:
I. War finance received utmost importance, exerting immense pressure on the conduct of monetary policy.
II. Governments' draft on the central bank only occurred during times of war and never in normal times.
III. The need to protect depositors and revive the banking system led central banks to assume the role of lender of the last resort.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2022

41. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): The principal reason for the genesis of central banks in several developing countries like India is that they should primarily play a developmental role.
Reason (R): In developing countries, central banks came into existence to promote the spread of commercial banks and other channels of credit flow.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

42. How did the new role of managing government debt after the First World War lead to more discretionary powers for central banks?
(A) Abandonment of the lender-of-last-resort function
(B) Mandate to issue only full value metal coin money
(C) Trading government paper for fine-tuning money supply
(D) Exclusive reliance on minimum reserve requirements

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May/June 2016

43. Consider the following statements regarding central bank independence:
I. Professional thinking increasingly supports the view that central banks should be independent of their sovereign governments.
II. A contrary view argues that central banks should not abandon their 'parents', questioning the 'come-of-age' hypothesis.
III. The case of two currencies in Iraq in the 1990s and the Bank of Japan in recent years provide support exclusively for absolute central bank independence.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2009

44. Consider the following statements about central banks and economic development:
I. Provision of finance to productive sectors promotes economic development.
II. As economic development takes place, only financial deepening occurs, while financial widening remains static.
III. There is a need for an appropriate institutional structure to ensure finance flows into intended directions.
IV. The nature and sophistication of financial

instruments change with financial deepening and widening.
V. Central banks assumed the role of a facilitator in financial institution building.

Which of the above statement(s) is/are correct?
(A) I, III, IV, and V
(B) II, III, IV, and V
(C) I, II, III, and IV
(D) I, II, IV, and V

May/June 2023

45. Why does the currency management of central banks in developing countries tend to be complex and intricate compared to developed countries?
(A) Preponderant use of cheques for payment mechanisms
(B) High currency use leading to high deposit ratios
(C) Currency forms a minor chunk of money supply
(D) Highly diversified established financial infrastructure

Oct/Nov 2018

46. What happens to the annual profits of the US Federal Reserve System after paying the statutory dividend and maintaining an account surplus?
(A) They are distributed among the twelve regional Federal Reserve Banks.
(B) The US Government receives all of them.
(C) They are transferred to the International Monetary Fund.
(D) They are reinvested entirely into foreign exchange reserves.

May/June 2007

47. Identify the incorrect statement regarding the development of central banks in developed and developing countries.
(A) Advanced economies show widening and deepening
(B) Monetary transmission is usually smooth and fast
(C) Arduous task of telescoping the process of growth
(D) Policy signals in advanced economies fail to trigger

Oct/Nov 2025

48. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): Many central banks that were originally established predominantly to finance the activities of their governments have ceased to do so in recent years.
Reason (R): Central banks have assumed many new functions that focus on the development of markets, institutions, and communication policies with a renewed emphasis on financial stability.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

49. Consider the following lists regarding thinkers, authorities, and concepts. Match the entity/concept in List I with its description in List II:
List I: (Entity/Concept)
P. Montesquieu
Q. Financial Services Authority (FSA)
R. Board for Financial Supervision (BFS)
S. Central Bank acting as regulator and supervisor

List II: (Description)
1. Established in the UK in 2000 as a supervisory authority outside the realm of the central bank
2. Propounded the theory of separation of powers
3. Functions within the ambit of the Reserve Bank in India as an apex level supervisory authority
4. Could lead to a conflict of interest due to divergent roles

(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-3, S-4
(C) P-2, Q-3, R-1, S-4
(D) P-3, Q-1, R-4, S-2

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Oct/Nov 2014

50. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): Extending credit to the government puts pressure on the monetary policy of central banks and generates inflationary pressures.
Reason (R): Central banks need to create excess money to meet government deficits, conflicting with the core objective of price stability.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

51. To stimulate economic growth, the central bank of a developing nation aggressively cuts its benchmark interest rates. However, data reveals that over 40% of the country's economic activity is funded by unregulated, local moneylenders who have not reduced their borrowing rates at all. Consequently, the central bank's policy fails to achieve the desired macroeconomic impact.
What fundamental structural issue does this scenario illustrate?
(A) The overarching threat of fiscal dominance
(B) Moral hazard in the lender of last resort function
(C) Weak transmission due to informal markets
(D) The adoption of rigid inflation targeting

Oct/Nov 2006

52. Identify the incorrect statement regarding the mandate of most central banks during global crises such as the Great Depression of the 1930s.
(A) The mandate included monetary stability.
(B) The mandate included promotion of full employment.
(C) The mandate included maximization of growth.
(D) Mandates strictly limited to currency management only

May/June 2021

53. In the context of the lender-of-last-resort function, what is the 'moral hazard' problem?
(A) Risk that central banks refuse liquidity to banks
(B) Unethical practice of financing government deficits
(C) Risk arising from introduction of instruments
(D) Bank complacency in expectation of central support

Oct/Nov 2010

54. Consider the following statements regarding the core of modern central banking:
I. Consensus on inflation targeting as an exclusive central banking mandate has been universally achieved without elusive aspects.
II. Issues of autonomy, transparency, accounting standards, and risk management have assumed importance.
III. Research activities have been given considerable importance in analysing the economic environment.
IV. Globalization challenges have necessitated redefining the statutes of central banking in both developed and developing countries.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2005

55. What gave impetus to the view that the central bank should be independent of any Government interference?
(A) Board for Financial Supervision in India
(B) Latin American expansion and Vietnam-era inflation
(C) Granting of independence to the Bank of France in 1993
(D) Maintenance of the Gold Standard in the 1970s

Oct/Nov 2022

56. Consider the following statements regarding the evolution of central banks around the First World War:
I. Paper money issued by central banks replaced full value metal coin money.

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II. The power of central banks over money supply decreased as notes ceased to be convertible into gold.
III. The lender-of-last-resort function was strengthened to stabilize the banking system during financial panics.
IV. Central banks' involvement in extending credit to their respective governments increased.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

May/June 2018

57. A central bank in an advanced economy wants to alter the macroeconomic conditions by adjusting its operational target. It sets a specific target for the rate at which banks charge one another on overnight loans of reserves. The central bank then conducts open market operations to equalize the demand for and supply of reserves at this exact rate.
This mechanism historically mirrors the operational strategy of which institution between 1970 and 1979?
(A) Bank of England managing the public exchequer
(B) The Federal Reserve relying on the federal funds rate
(C) Bundesbank integrating separate financial entities
(D) Bank of Italy cleaning the inherited balance sheet

Oct/Nov 2016

58. A commercial bank adopts a highly aggressive lending strategy, heavily exposing its balance sheet to risky assets. The bank's management justifies this complacency by assuming that if liquidity dries up, the central bank will step in with emergency funds to prevent a systemic collapse.
To discourage this specific behavioral issue, what immediate action should the central bank take when approached for support?
(A) Review balance sheets and charge penal interest rates
(B) Provide unlimited funding at below-market rates
(C) Nationalize the bank and replace all shareholders
(D) Revoke the bank's license to accept retail deposits

May/June 2014

59. On which date did the world lose its monetary anchor when the US decided to delink the dollar from gold?
(A) February 1, 1997
(B) August 15, 1933
(C) August 15, 1971
(D) July 1, 1946

Oct/Nov 2007

60. Which of the following statements correctly explains the proliferation of central banks?
(A) It is essentially an eighteenth-century phenomenon.
(B) Central banks were deemed inappropriate for regulation.
(C) Numbers decreased due to consolidation of markets.
(D) It was a twentieth-century result of new nation states.

May/June 2025

61. In an early 19th-century economy, five different private financial organizations issue their own currency notes. The public constantly disputes the quality and acceptability of these notes, leading to severe erosion in the internal value of the money. To restore stability, the government enacts a law stripping the private entities of this right and assigning it exclusively to a newly formed central bank.
This historical process describes the establishment of:
(A) The lender of last resort function
(B) Open market operations
(C) The monopoly of bank note issue
(D) The dual mandate

Oct/Nov 2019

62. The core functions of a modern central bank are broadly categorized into several areas. Which of the following is NOT typically considered one of these core functional categories?
(A) Monetary policy functions
(B) Banker to the banks
(C) Retail commercial lending to the general public
(D) Banker to the government

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May/June 2009

63. A nation transitioning from a centrally planned economy to a free-market system establishes a new central bank. Being a "late comer," the bank's leadership studies various global frameworks and successfully implements an advanced, fully digital payment and settlement system directly modeled on a developed European nation's system, bypassing decades of gradual evolution. This advantageous process is known as:
(A) Telescoping growth through informal market integration
(B) Falling victim to the constrained optimization problem
(C) Grafting systems from developed countries
(D) Succumbing to the threat of fiscal dominance

Oct/Nov 2011

64. Consider the following statements regarding the challenges of globalization for central banking:
I. Free flow of capital, trade, and information across borders has necessitated redefining the statutes of central banking.
II. These challenges only affect the central banks in developed countries.
III. Research activities are given importance to deal with increasing complexities in financial products and instruments.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2010

65. Consider the following statements regarding the Board of Governors of the Federal Reserve System:
I. It is composed of seven members.
II. Members are nominated by the President and confirmed by the Senate.
III. A full term for a member is fourteen years.
IV. One term begins every year on January 1st of odd-numbered years.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

NODIA

Oct/Nov 2024

66. The central bank of a developing country currently utilizes direct credit controls and sector-specific lending targets because its financial markets are shallow. The central bank initiates a ten-year plan to build robust financial institutions and deepen the markets.
According to the evolutionary path of central banks in such economies, what is the ultimate goal of making these sustained efforts to develop financial markets?
(A) To merge the central bank with the national treasury
(B) To permanently enforce financial repression and market segmentation
(C) To abandon the responsibility of maintaining external currency value
(D) To eventually move on to market-based instruments for monetary policy conduct

May/June 2017

67. Identify the incorrectly matched pair regarding the concepts of central banking.
(A) Inflation Targeting - Accountability for maintaining inflation within a pre-assigned band
(B) Debt Manager Role - Extending credit to government, potentially creating inflationary pressures
(C) US delinking dollar from gold - Loss of global monetary anchor in 1971
(D) Separation of Powers - Merging regulatory and supervisory roles to avoid conflict of interest

Oct/Nov 2005

68. Historically, what mechanism was primarily utilized to achieve price stability along with maintaining the external value of currency before 1971?
(A) The inflation targeting framework
(B) Mechanics of Gold Standard and the dollar anchor
(C) The Federal Funds Rate mechanism
(D) The minimum reserve requirement stipulation

May/June 2020

69. Consider the following statements regarding the 'constrained optimization problem' faced by central banks in developing countries:
I. Developing countries face the arduous task

of telescoping the process of growth.
II. Central banks in developing countries operate in environments with deep, highly diversified markets.
III. These central banks struggle with shallow and segmented markets.
IV. They often have to deal with situations of market failure and financial repression.
V. They attempt to break constraints proactively by appropriate institution building.

Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

Oct/Nov 2015

70. Consider the following statements regarding 'Rules vs Discretion':
I. Central banking was initially practiced with informal norms and conventions before being institutionalized into laws.
II. Central banks in emerging economies need to embrace rigid rules rather than discretion due to their specific economic features.
III. The operational strategies of central banks have been modulated to tailor them to country-specific scenarios.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2013

71. What is the primary benefit for central banks adopting international codes and standards recommended by major standard-setting bodies?
(A) It allows them to bypass the need for public accountability.
(B) It helps resolve autonomy and crisis dilemmas
(C) It ensures they can legally finance government deficits.
(D) It guarantees the elimination of informal markets.

Oct/Nov 2021

72. Consider the following lists regarding central bank milestones. Match the Central Bank in List I with its milestone in List II:
List I: (Central Bank)
P. Riksbank
Q. Bank of England
R. Banque de France
S. Federal Reserve System
List II: (Milestone)
1. Nationalized in 1946
2. Recognized as the first central bank in the world
3. Established in 1913
4. Described as 'public exchequer' with charter renewal in 1791

(A) P-2, Q-1, R-4, S-3
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-4, R-1, S-3
(D) P-1, Q-3, R-4, S-2

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May/June 2024

73. Identify the incorrect statement regarding the financials of the Federal Reserve Banks in 2020/2021.
(A) Earnings for 2020 were approximately $88.6 billion
(B) 2020 Treasury remittances were $86.9 billion
(C) 2021 expenses were covered by priced service revenue
(D) 2021 expenses exceeded the budgeted amount significantly

Oct/Nov 2008

74. Why does the Federal Reserve System consider itself an independent central bank?
(A) It relies on funding appropriated by the Congress
(B) Its decisions require no executive/legislative approval
(C) Terms strictly align with a presidential term of office
(D) It is owned and operated by the U.S. Treasury entirely

May/June 2006

75. Consider the following statements about the role of central banks in developing countries:
I. They act as facilitators who foster the development of financial markets.
II. They function under conditions of complete autonomy without any fiscal dominance.
III. They facilitate the process of smooth monetary transmission mechanisms.
IV. They strive to meet the financial needs of the governments and achieve set socio-

economic goals.

Which of the above statement(s) is/are correct?

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Oct/Nov 2017

76. Consider the following statements regarding central banks in developing and transition economies:

I. Central banks of older developing countries developed their systems and operating procedures gradually.
II. Transition economies had the benefit of being late comers and could choose from a variety of frameworks.
III. Central banks in transition economies were forced to rely strictly on informal markets.
IV. Central banks in transition economies have been able to graft systems successfully from developed countries.
V. Merely grafting developed country models is always highly suitable and immediately compatible with older developing countries.

Which of the above statement(s) is/are correct?

(A) I, II, and IV
(B) I, III, and V
(C) II, IV, and V
(D) I, II, III, and IV

May/June 2008

77. A central bank in a developing nation finds that its traditional policy of tweaking short-term interest rates has almost zero effect on the broader economy because the domestic financial markets are underdeveloped and highly fragmented.

To effectively overcome this limitation and transmit monetary policy, which immediate operational approach must the central bank rely on, as opposed to market-based instruments?

(A) Abolishing the lender of last resort function
(B) Delegating monetary policy entirely to informal markets
(C) Adopting international codes and standards to privatize the central bank
(D) Direct or sector-specific tools in the conduct of monetary policy

Oct/Nov 2013

78. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:

Assertion (A): Central banks in developing countries face a greater need to maintain close co-ordination between fiscal and monetary policies.

Reason (R): Entrusting central banks with greater responsibility for economic development exposes them to the threat of fiscal dominance, which may have an adverse impact on monetary policy.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

79. As an economy grows, a central bank observes an increase in the variety and sophistication of available financial instruments, such as derivatives and mutual funds, alongside a greater volume of traditional bank deposits. To mobilize these savings and ensure finance flows in intended directions, the central bank facilitates institutional building.

This phenomenon of increasing variety and volume of financial tools is termed as:

(A) Financial deepening and financial widening
(B) Adverse selection and moral hazard
(C) Fiscal dominance and monetary expansion
(D) Rules versus discretion

Oct/Nov 2012

80. The economy is overheating due to excessive bank lending. To rapidly constrain credit expansion and manage the money supply directly, the central bank mandates that all commercial banks must now hold 10% of their total deposits as un-lendable cash reserves, up from the previous 5%.

The power to impose this specific stipulation was granted to central banks following which historical timeframe?

(A) Since the establishment of the Riksbank in

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1668
(B) Since renewal of the England Charter in 1791
(C) Post-1933 in the US and post-war in Germany
(D) Since the world lost its monetary anchor in 1971

May/June 2011

81. Why is there very little generic theory of central banking per se?
(A) Practice evolved via country-specific history
(B) All banks used an identical framework early on
(C) Standard bodies ignored theoretical development
(D) The Federal Reserve Act explicitly banned theory

Oct/Nov 2020

82. The recent Covid-19 pandemic demonstrated the resilience of central banks. Which of the following is NOT an action or impact associated with the central banks' response to this crisis?
(A) Acting strongly to mitigate the adverse economic impact of the pandemic
(B) Permanently abandoning the mandate of maintaining payment and settlement systems
(C) Steering the economy towards revival and placing it on the growth path
(D) Using a range of different measures to shore up financial markets

May/June 2022

83. A European country's central bank has been under heavy influence from the ruling political party, which often manipulates dividend payments and profits for short-term political gains, causing volatile inflation. To prepare for integration into a broader continental monetary union, the government legally grants the bank independence from political influence to ensure price stability regardless of domestic politics.
This structural reform is identical to which historical event?
(A) The nationalization of the Bank of England in 1946
(B) The establishment of the Bundesbank in 1957
(C) The granting of independence to Banque de France in 1993
(D) The creation of the Federal Reserve System in 1913

Oct/Nov 2023

84. Consider the following lists regarding legislative acts/charters and their impact. Match the legislative act or charter in List I with its resulting impact in List II:
List I: (Legislative Act / Charter)
P. Bank Charter Act (1844)
Q. Renewal of BoE Charter (1791)
R. Bundesbank Law (1957)
S. Federal Reserve Act (1913)
List II: (Resulting Impact)
1. Established a central banking system in response to a series of financial panics
2. Granted the bank a monopoly to print bank notes in England and Wales
3. Established a federal central bank that gradually helped to integrate separate units in Germany
4. Described the bank as the 'public exchequer' and acted as bankers' bank
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-3, S-2

May/June 2016

85. Which of the following accurately describes the regime of inflation targeting?
(A) Pursuing a target and accountability for the band
(B) Target coordination with the debt management office
(C) Target using mechanics of the original Gold Standard
(D) Employment priority over maintaining assigned bands

Oct/Nov 2009

86. Identify the correctly matched pair regarding the strategies of central banks in developing countries.
(A) Shallow and segmented markets - Reliance purely on advanced market-based instruments from the outset
(B) Financial repression - Promoting immediate full central bank autonomy without any fiscal dominance
(C) Direct or sector specific tools - Used exclusively after financial markets are fully

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developed
(D) Constrained optimization problem - Telescoping the process of growth while constrained by underdeveloped markets

May/June 2023

87. Identify the incorrectly matched pair regarding regulatory and supervisory authorities.
(A) Financial Services Authority (FSA) - Established in the UK in 2000
(B) Board for Financial Supervision (BFS) - Functions outside the ambit of the Reserve Bank of India
(C) Montesquieu - Theory of separation of powers
(D) Central Bank in UK before 2000 - Held both regulatory and supervisory roles which could lead to conflict of interest

Oct/Nov 2018

88. Consider the following lists regarding central bank events. Match the event in List I with the correct year in List II:
List I: (Central Bank Event)
P. Bank Charter Act grants monopoly to print notes
Q. Granting of independence to Banque de France
R. Statutes approved giving French minister control over dividend payments
S. Euro currency conversion by member countries
List II: (Year)
1. 1973
2. 1844
3. 1999
4. 1993
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-3, R-2, S-4

May/June 2007

89. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): Currency management by the central bank becomes complex and intricate in developing countries.
Reason (R): In developing countries, there is a preponderant use of cheques and drafts rather than currency as a means of payment mechanisms.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

90. Consider the following statements regarding minimum reserve requirements:
I. Central banks were empowered to impose the stipulation of maintenance of minimum reserve requirements by banks.
II. This stipulation provided an important and direct tool of monetary management for central banks.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2012

91. Consider the following statements regarding the evolution of central bank functions:
I. During the Great Depression, the mandate included monetary stability, full employment, and growth.
II. Lender-of-last-resort function assumed significance to protect depositors and infuse confidence in the banking system.
III. Central banks face the moral hazard issue when banks maintain complacent behaviour expecting support.
IV. Central banks often extend support to failing banks at a subsidized, below-market interest rate to reward risk-taking.
V. Central banks strengthened their supervisory and regulatory roles to avert systemic risks.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and IV

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Oct/Nov 2014

92. A country's Ministry of Finance orders its central bank to aggressively purchase government bonds to fund a massive infrastructure deficit. As the central bank complies by creating excess money, the national inflation rate skyrockets, drastically reducing the real income of households.
This scenario provides a strong argument for which central banking reform?
(A) Absorbing all supervisory functions into the bank
(B) Mandating use of cheques and drafts by the public
(C) Separating debt management and ensuring autonomy
(D) Reinstating the Gold Standard within the economy

May/June 2019

93. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). In the context of these statements, choose the most appropriate answer from the options given below:
Assertion (A): The view that central banks should be independent of any Government interference gained thrust in the 60s and 70s.
Reason (R): Undue fiscal and monetary expansion in Latin America and ensuing enduring inflation highlighted the dangers of government interference.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

94. Which of the following statements correctly highlights the difference in payment mechanisms between developed and developing countries?
(A) Developing nations experience more cheque use
(B) Currency to deposit ratio is low in developing nations
(C) Developing countries show high currency to deposit ratios
(D) Advanced economies use currency for major payments

May/June 2021

95. A central bank operates in a developing economy characterized by sudden capital flights and structural supply bottlenecks. Realizing that rigidly adhering to fixed, pre-published interest rate rules worsens the economic panic during a crisis, the central bank's governor opts to use subjective judgment and situational policy adjustments to restore stability.
This operational strategy reflects the central bank's necessity to:
(A) Formalize laws into inflexible codes of conduct
(B) Abandon the lender of last resort function
(C) Nationalize private commercial banks immediately
(D) Use discretion given specific emerging features

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Oct/Nov 2010

96. Consider the following statements:
I. The proliferation of financial instruments and episodes of financial crises brought central banks' concern for price stability and financial stability to the fore.
II. In the wake of growing concerns about deflation, monetary policy formulation assumed critical importance in the late twentieth century.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

97. Bank X is facing a severe liquidity crisis because it knowingly invested a large portion of its deposits in highly speculative, illiquid real estate ventures, assuming the central bank would bail it out if things went wrong. The central bank agrees to provide emergency liquidity to Bank X but conducts a rigorous, forensic audit of Bank X's balance sheet and charges an interest rate significantly higher than the standard market rate.
What is the central bank's primary objective in applying these strict conditions?
(A) To encourage further speculative investments in the real estate sector

(B) To penalize the bank and discourage moral hazard
(C) To force Bank X to permanently adopt the Gold Standard
(D) To seamlessly telescope the process of financial widening

Oct/Nov 2022

98. Several countries in Europe established central banks in the nineteenth century. Which of the following countries is NOT correctly paired with its central bank establishment year in that century?
(A) France (1800)
(B) Sweden (1668)
(C) Netherlands (1814)
(D) Germany (1876)

May/June 2018

99. Consider the following lists regarding the components of the Federal Reserve System. Match the component in List I with its corresponding detail in List II:
List I: (Component)
P. Board of Governors
Q. FOMC
R. Regional Federal Reserve Banks
S. Voting bank presidents on the FOMC
List II: (Corresponding Detail)
1. Consists of all seven members of the Board and twelve regional bank presidents
2. Composed of seven members nominated by the President
3. Only five vote at any given time, rotating through one-year terms
4. Twelve of these are located in major cities throughout the nation
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-1, R-2, S-3

Oct/Nov 2016

100. Consider the following lists regarding central banking concepts and their characteristics. Match the concept in List I with its defining characteristic in List II:
List I: (Central Banking Concept)
P. Dual Mandate
Q. Moral Hazard
R. Fiscal Dominance
S. Financial Deepening
List II: (Defining Characteristic)
1. Complacent behaviour by banks expecting central bank bailouts
2. Maximizing employment and stabilizing prices
3. Expanding the volume and sophistication of financial instruments
4. Threat to monetary policy arising from the responsibility to finance government debt
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

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ANSWERS

1. (D) Founded in 1668 to lend funds to Government
The Sveriges Riksbank, established in 1668, is widely recognized as the oldest central bank in the world. It was originally founded to provide funds to the Swedish government while acting as a bank of issue. Unlike later central banks focused on monetary policy, its primary initial purpose was fiscal support through government lending and credit.

2. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In 1997, the Bank of England received operational independence from the United Kingdom government. This significant reform allowed the Bank to set interest rates independently to achieve inflation targets. The Chancellor of the Exchequer delegated this specific power to the Monetary Policy Committee, ensuring that monetary decisions were insulated from short-term political pressures for better economic outcomes.

3. (A) Only I
Historically, the presence of multiple note-issuing organizations often led to instability in the currency's value. Controlling the total volume and quality of money was difficult when various private banks issued their own notes. This decentralized system frequently resulted in currency erosion rather than strengthening the internal or external value of money, necessitating a centralized monopoly for stability.

4. (C) Bundesbank
The establishment of the Bundesbank in Germany provides a historical example of a central bank founded to integrate diverse financial entities within a federal structure. By unifying separate state regulations and currency systems into a transparent monetary regime, it facilitated commerce across the nation. This process was essential for creating a cohesive and stable national economy.

5. (B) I, III, and IV
Adopting international codes and standards allows central banks to strengthen their institutional frameworks. These standards help resolve dilemmas regarding political autonomy while fostering transparency in financial governance. Furthermore, they enforce public accountability in operations. Standardizing these practices generally reduces systemic risks and helps prevent financial crises rather than increasing their likelihood through standardizing market risks across different regions.

6. (B) Maximizing employment and stabilizing prices
The Federal Reserve operates under a specific legal framework known as the dual mandate. This mandate requires the institution to pursue two primary economic goals simultaneously: maximizing sustainable employment and maintaining stable prices. By balancing these objectives, the central bank aims to foster a stable financial environment that supports long-term economic growth and protects the currency's purchasing power.

7. (B) Exigency of war financing
During the twentieth century, the urgent need for war financing served as a major stimulus for establishing or strengthening central banks globally. Governments required centralized institutions to manage massive debt issuance and ensure sufficient liquidity for military efforts. This role often superseded other functions like managing foreign exchange or international trade, profoundly shaping the early development of modern central banking.

8. (B) 1694
The Bank of England was established in 1694 under a Royal Charter during the reign of William and Mary. Its initial creation was primarily driven by the government's need to raise funds for the war against France. Over the subsequent centuries, it evolved from a private entity into the United Kingdom's central bank, shaping global banking history.

NODIA

9. (A) I, II, III, and V
Founded in 1800, the Bank of France initially held exclusive note-issuing privileges in Paris before expanding nationwide in 1848. It underwent nationalization in 1946 to align with post-war economic goals. In 1993, the bank was granted independence to prioritize price stability. This historical progression illustrates the transition from a state-supported private institution to an autonomous modern central bank.

10. (C) P-2, Q-4, R-1, S-3
Central banks across Europe and Asia were established during the nineteenth century to modernize their respective financial systems. The National Bank of Belgium was founded in 1850, while the Bank of Portugal began operations in 1846. The Bank of Italy was created through a merger in 1893, and the Bank of Japan was established in 1882 to centralize currency.

11. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Federal Open Market Committee possesses a unique organizational structure that balances centralized and regional interests. It includes all seven members of the Board of Governors and all twelve regional Federal Reserve Bank presidents. However, only five of these presidents hold voting rights at any given time on a rotating basis, ensuring diverse regional perspectives in monetary policy decisions.

12. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Maintaining a stable external value of currency is a vital responsibility for central banks. Excessive volatility in exchange rates creates significant uncertainty within foreign exchange markets, which can severely distort international trade and investment. By intervening to stabilize the currency, central banks protect the domestic economy from external shocks and ensure a predictable environment for global commercial transactions.

13. (A) P-4, Q-3, R-2, S-1
The Bank of England's history is marked by several pivotal milestones. It provided critical liquidity support following the South Sea Bubble crash in the 1720s. In 1791, a charter renewal recognized its role as the public exchequer. The 1844 Bank Charter Act granted it a note-issue monopoly, and the institution was eventually nationalized by the government in 1946.

14. (C) Rules vs Discretion
The debate between rules and discretion focuses on whether central banks should follow fixed, pre-determined policy guidelines or use flexible judgment. While rules provide predictability and help anchor expectations, discretion allows policymakers to respond dynamically to unforeseen economic shocks. This balance is fundamental to operational practice, as banks must decide how much flexibility is needed to maintain financial stability.

15. (D) Financial panics, notably the panic of 1907
The Federal Reserve System was created in 1913 as a direct response to repeated financial panics that destabilized the American economy. The severe panic of 1907 highlighted the desperate need for a centralized authority to provide liquidity and oversight. By enacting the Federal Reserve Act, Congress aimed to establish a more stable and flexible monetary and financial system.

16. (A) Rate of domestic currency expressed in foreign terms
The external value of money refers specifically to the price of a nation's domestic currency when expressed in terms of another foreign currency. This exchange rate determines the purchasing power of the currency in international markets. It is distinct from the internal value, which measures purchasing power within the domestic economy through the price levels of local goods.

17. (A) P-2, Q-4, R-1, S-3
Different central banks were founded with distinct historical rationales. The Bank of Portugal initially operated as a note-issuing commercial bank focused on profit. The Bundesbank aimed to unify the German monetary and banking system. The Bank of Italy was established to clean inherited balance sheets and restore capital bases, while the Federal Reserve was created to centralize control after financial panics.

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18. (A) I, IV, III, II
The establishment of central banks followed different timelines across Europe and Asia. The Bank of France was founded first in 1800, followed by the Bank of Finland in 1811. The Bank of Spain was established in 1856, and the Bank of Japan followed later in 1882. This sequence reflects the varying speeds of financial modernization and centralization in these nations.

19. (D) Bailing out entities after the 1720s South Sea Bubble
The Bank of England performed an early version of the lender-of-last-resort function during the 1720s. Following the collapse of the South Sea Bubble, the bank stepped in to bail out distressed entities and provide liquidity to a collapsing market. This historical event demonstrated the necessity of a central institution capable of stabilizing the financial system during periods of acute crisis.

20. (A) The application of discretion over rules
When a central bank deviates from rigid inflation-targeting rules to address unique structural shocks, it is exercising discretion. This approach prioritizes flexible, situational judgment over fixed regulatory frameworks. By providing targeted liquidity support based on the specific needs of the economy, the bank attempts to mitigate immediate crises that standard, rules-based policies might not adequately address in a timely manner.

21. (C) Board, FOMC, twelve banks, member banks, and councils
The Federal Reserve System is composed of several distinct yet interconnected entities. It includes the Board of Governors in Washington, D.C., the Federal Open Market Committee, twelve regional Federal Reserve Banks, numerous member commercial banks, and various advisory councils. This decentralized structure ensures that monetary policy reflects both national interests and regional economic conditions across the United States.

22. (B) Maintaining a stable external value of money
For export-oriented businesses, unpredictable currency fluctuations create significant pricing risks and hinder international commerce. To resolve these systemic uncertainties, the central bank must maintain a stable external value of money. By managing exchange rate volatility, the authority provides a predictable environment for trade, ensuring that domestic goods remain competitive and transactions can be conducted with greater confidence.

23. (D) Developmental roles successfully insulated central banks from fiscal dominance
In many developing countries, central banks were tasked with ambitious developmental roles that went beyond traditional monetary functions. These mandates often required promoting economic growth and spreading commercial credit. However, these developmental responsibilities did not necessarily insulate them from fiscal dominance; instead, the need to coordinate with government goals often increased the risk of political interference in monetary policy.

24. (A) IV, III, I, II
The Bank of France evolved through several key stages. First, note-issue privileges were extended across France in 1848 as provincial banks became branches. The bank was nationalized in 1946. Later, in 1993, it was granted independence to focus on price stability. Finally, the institution transitioned as France adopted the Euro, completing its integration into the European monetary system.

25. (B) Royal Charter of 1694 - Founded the Bank of England
The Bank of England's founding in 1694 was formalized by a Royal Charter, which established it as a private bank to help the government raise funds. While other figures like William Paterson proposed its creation, the charter remains the definitive legal origin. This institution eventually transitioned into the public central bank, gaining further powers through acts like the 1844 Charter Act.

26. (D) To ensure stability by preventing currency erosion
Central banks eventually assumed an exclusive monopoly over note issuance to ensure monetary stability. When multiple institutions issued currency, the lack of centralized control often led to over-issuance and the erosion of the currency's value. By centralizing this function, authorities

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could better manage the money supply, maintain public confidence, and prevent the inflationary pressures caused by unregulated currency production.

27. (A) Uniform rules to stabilize currency and prevent crises
The founding of the Bank of Italy in 1893 was part of a broader effort to reorganize the national monetary and credit system. The primary objective was to establish uniform rules that would stabilize the currency and prevent future financial crises. This reorganization focused on creating a solid capital base and a transparent framework for banking operations to foster economic stability.

28. (C) I and III only
As financial infrastructures evolved, central banks took on the critical task of managing payment and settlement systems to ensure efficiency. Simultaneously, the rise of complex financial instruments required the development of sophisticated risk management systems to contain systemic risks. Contrary to reducing roles, the proliferation of diverse financial institutions actually expanded the regulatory and supervisory responsibilities of central banks.

29. (C) Shareholder representation via 200 regents by top owners
The Bank of France was established in 1800 with a mix of private and state funding, and its leadership was appointed by the government. However, shareholder representation was not based on 200 regents appointed by top owners; rather, the "General Assembly of the 200 largest shareholders" existed, but the governing structure was more closely tied to state-appointed officials for control.

30. (D) Removing the necessity for country-specific strategies
Adoption of international standards aims to enhance transparency, accountability, and autonomy while preventing financial crises. These global frameworks provide a benchmark for best practices in governance. However, they do not remove the necessity for country-specific strategies. Central banks must still tailor their policies to address unique domestic economic features and structural challenges while adhering to broader international regulatory principles.

31. (C) Note issue, monetary policy, and promoting growth
Modern central banking functions have expanded significantly from their origins. Today, the core includes the exclusive right of note issuance, the formulation and execution of monetary policy to maintain price stability, and the promotion of sustainable economic growth. These responsibilities are supported by secondary roles such as acting as a banker to the government and ensuring financial system stability.

32. (C) Single authority regulation/supervision conflict
Montesquieu's theory of the separation of powers is often applied to central banking regarding the potential conflict between regulation and supervision. Critics argue that housing both functions within a single authority can create a conflict of interest, similar to concentrating legislative and executive powers. This debate has led some nations to establish separate bodies to handle bank supervision independently from monetary policy.

33. (B) Remitted entirely to the U.S. Treasury
Although the regional Federal Reserve Banks are technically owned by their member commercial banks, their profit distribution is strictly regulated by law. After covering all operational expenses, paying a statutory 6% dividend to member banks, and maintaining a specified surplus, all remaining net earnings must be remitted to the U.S. Treasury. This ensures the public benefits from the system's revenue.

34. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In developed countries, the financial infrastructure is characterized by significant widening and deepening, with a diverse range of institutions and instruments. This sophistication ensures that any change in interest rates by the central bank triggers a rapid and widespread response across the entire banking system and financial markets. The strong transmission mechanism is a direct result of this well-diversified financial structure.

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35. (B) Providing unconditional financial bailouts at subsidized rates
To combat moral hazard, central banks must avoid providing unconditional financial bailouts at subsidized rates, as this encourages risky behavior. Instead, they use measures like subjecting distressed banks to rigorous balance sheet scrutiny and charging penal interest rates on emergency loans. Strengthening supervision and regulation also serves to deter banks from taking excessive risks with the expectation of easy support.

36. (B) Only II
In many developing economies, informal financial markets operate largely independently of the organized money market. Because these informal lenders do not typically respond to central bank interest rate signals, their presence significantly weakens the overall monetary transmission process. This independence means that policy changes intended to stimulate or cool the economy may fail to reach a large portion of the population.

37. (B) Only II
The Federal Reserve is considered independent because its monetary policy decisions do not require approval from the President or the executive branch. Furthermore, the institution does not receive funding through Congressional appropriations; instead, it generates its own revenue from interest on securities and services. This financial and operational autonomy allows it to pursue long-term economic goals without immediate political interference.

38. (A) Debt manager to the government and pursuer of price stability
During periods of war, a central bank's role as the government's debt manager often conflicts with its mandate for price stability. If forced to purchase government debt through excessive currency printing, the bank risks causing hyperinflation. This situation highlights the tension between fiscal requirements and the maintenance of the currency's purchasing power, often leading to the erosion of monetary discipline.

39. (D) Establish a separate supervisory authority
To resolve potential conflicts of interest between monetary policy and bank supervision, some nations have separated these functions. For instance, the United Kingdom established the Financial Services Authority in 2000 to handle supervision independently. This reform ensures that interest rate decisions are not compromised by a desire to protect weak banks, thereby maintaining the central bank's focus on inflation targets.

40. (C) I and III only
Historically, central banks prioritized war financing, which often placed immense pressure on monetary policy and price stability. Additionally, the need to protect depositors and maintain confidence in the financial system led them to adopt the role of lender of last resort. However, government drafts on central banks were not limited to wartime; they frequently occurred during normal periods for various fiscal needs.

41. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In many developing nations, central banks were specifically established to play a primary developmental role. This necessity arose because existing financial structures were often insufficient to support economic growth. Consequently, these banks focused on expanding the spread of commercial banking and facilitating credit flow to productive sectors, making the promotion of financial infrastructure a core part of their initial mandate.

42. (C) Trading government paper for fine-tuning money supply
After the First World War, central banks took on a more active role in managing government debt. This change allowed them to engage in trading government paper, which provided a mechanism for fine-tuning the money supply through open market operations. This transition increased their discretionary powers, moving away from rigid metal-based currency systems toward more flexible management of the broader monetary environment.

43. (A) I and II only
Modern economic thought generally favors the independence of central banks to ensure long-term price stability. However, a competing view

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suggests they should remain closely tied to their sovereign governments, questioning if they have truly "come of age." While cases like Iraq and Japan are studied, they do not provide exclusive support for absolute independence, as many factors influence central banking effectiveness.

44. (A) I, III, IV, and V
Central banks promote economic development by facilitating finance to productive sectors and building necessary financial institutions. As development progresses, both financial widening and financial deepening—the increased variety of instruments—occur simultaneously. These processes require an appropriate institutional structure to ensure that credit flows effectively toward intended economic goals while managing the resulting complexities in the financial system.

45. (B) High currency use leading to high deposit ratios
Currency management is particularly complex in developing countries because of the high currency-to-deposit ratio. In these economies, cash remains the predominant medium for payments, whereas advanced economies rely more on cheques and digital transfers. This heavy reliance on physical notes means that currency forms a major portion of the money supply, requiring central banks to maintain extensive logistical and security frameworks.

46. (B) The US Government receives all of them.
The Federal Reserve System's financial operations result in substantial annual net profits. After paying the legally required dividend to member banks and retaining a statutory surplus, the remaining funds are transferred to the U.S. government. These remittances to the Treasury ensure that the earnings generated by the nation's central bank are used for public benefit rather than private profit.

47. (D) Policy signals in advanced economies fail to trigger
Advanced economies typically feature a strong financial superstructure where monetary policy signals trigger immediate responses in markets. In contrast, developing nations often face the arduous task of "telescoping" growth within underdeveloped systems. The statement that policy signals in advanced economies fail to trigger is incorrect, as these systems are designed for efficient and rapid transmission of central bank decisions.

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48. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Many central banks have shifted their focus away from primarily financing government activities toward new functions like market development and financial stability. While both the assertion and reason are true, the emergence of these new functions is not the principal explanation for why they stopped financing governments. Instead, the move toward independence and inflation targeting was driven by the need to control inflation.

49. (B) P-2, Q-1, R-3, S-4
Montesquieu propounded the separation of powers theory, which influences modern regulatory debates. The Financial Services Authority was created in the UK as an independent supervisor. In India, the Board for Financial Supervision operates within the Reserve Bank to oversee financial entities. Finally, combining regulatory and supervisory roles within a single central bank is often cited as a potential source of conflict.

50. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
When central banks extend credit to the government to finance deficits, they often create excess money, which puts significant pressure on monetary policy. This expansion of the money supply frequently leads to inflationary pressures, directly conflicting with the core objective of maintaining price stability. Therefore, the requirement to fund government debt can severely undermine the central bank's primary mandate.

51. (C) Weak transmission due to informal markets
The scenario where interest rate cuts fail to affect the broader economy due to unregulated moneylenders illustrates weak monetary transmission caused by informal markets. In developing nations, a large segment of economic activity occurs outside the formal banking system. Since informal lenders do not follow central

bank signals, policy changes cannot effectively influence borrowing costs or economic behavior for a significant portion of the market.

52. (D) Mandates strictly limited to currency management only
During major global crises like the Great Depression, the mandates of central banks were not strictly limited to currency management. Instead, they were expanded to include objectives such as ensuring monetary stability, promoting full employment, and maximizing economic growth. These broader goals recognized that maintaining a stable financial environment was essential for overall economic recovery and public welfare during severe downturns.

53. (D) Bank complacency in expectation of central support
In central banking, moral hazard refers to the risk that commercial banks will engage in overly aggressive or complacent behavior because they expect the central bank to bail them out during a crisis. This expectation can lead to poor risk management and excessive exposure, as banks believe the lender of last resort will ultimately provide the necessary liquidity to prevent failure.

54. (C) II, III, and IV
Modern central banking prioritizes issues like autonomy, transparency, and sophisticated risk management. Research activities are essential for analyzing increasingly complex economic environments. Globalization also requires redefining banking statutes to handle international capital flows. While inflation targeting is common, it is not universally achieved without elusive aspects, as banks must often balance multiple objectives like growth and financial stability.

55. (B) Latin American expansion and Vietnam-era inflation
The push for central bank independence gained significant momentum during the 1960s and 1970s. This was largely driven by the experience of persistent inflation in Latin America and the Vietnam-era United States, where government interference in monetary policy led to excessive expansion. These events highlighted the dangers of fiscal dominance and the need for autonomous institutions focused on price stability.

56. (B) I, III, and IV
Around the First World War, central banks transitioned from issuing gold-convertible notes to paper money. They also took on greater roles in extending credit to governments and strengthened their lender-of-last-resort functions to stabilize the system. Their power over the money supply actually increased during this period because notes were no longer strictly tied to gold reserves, allowing for more discretionary policy.

57. (B) The Federal Reserve relying on the federal funds rate
Between 1970 and 1979, the Federal Reserve's operational strategy centered on managing the federal funds rate. By conducting open market operations, the Fed adjusted the supply of reserves to meet demand at a specific target rate. This rate represents what banks charge each other for overnight loans and serves as a key tool for influencing broader macroeconomic conditions and monetary stability.

58. (A) Review balance sheets and charge penal interest rates
To discourage moral hazard when a bank takes excessive risks, the central bank should not provide unconditional support. Instead, it must subject the distressed bank's balance sheet to rigorous scrutiny and charge interest at a penal rate. These strict conditions ensure that emergency liquidity comes at a high cost, discouraging other institutions from adopting similarly risky lending strategies in the future.

59. (C) August 15, 1971
On August 15, 1971, the United States officially ended the direct convertibility of the US dollar into gold. This historic decision effectively dismantled the Bretton Woods system, causing the world to lose its primary monetary anchor. The event led to a transition toward floating exchange rates and required central banks to find new frameworks for maintaining price and currency stability.

60. (D) It was a twentieth-century result of new nation states.
The rapid proliferation of central banks was primarily a twentieth-century phenomenon. It was largely driven by the emergence of new

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nation-states following decolonization and the breakup of empires. These new nations viewed a central bank as a vital symbol of sovereignty and a necessary institution for managing their own currencies, credit systems, and developmental goals in a modern economy.

61. (C) The monopoly of bank note issue
The process of stripping private banks of the right to issue currency and centralizing it within a single institution establishes a monopoly of bank note issue. This historical transition was necessary to prevent the instability and erosion of value caused by competing private currencies. By becoming the sole issuer, the central bank could effectively manage the money supply and maintain public confidence.

62. (C) Retail commercial lending to the general public
Modern central banks typically perform core functions such as executing monetary policy, acting as a banker to the government, and serving as the banker to commercial banks. However, they do not usually engage in retail commercial lending to the general public. This retail function is reserved for commercial banks, while the central bank maintains its focus on systemic stability and macroeconomic management.

63. (C) Grafting systems from developed countries
Transition economies often benefit from being "late comers" by adopting advanced systems developed elsewhere. This process, known as grafting, allows these nations to skip intermediate evolutionary stages and implement modern financial infrastructures, such as digital payment systems, modeled on developed countries. While efficient, the success of grafting depends on the compatibility of these advanced models with the local economic environment.

64. (C) I and III only
Globalization has forced central banks to redefine their statutes to handle the cross-border flow of capital and information. This has led to an increased emphasis on research to understand complex financial instruments. These challenges are not limited to developed countries; central banks in emerging economies must also adapt their policies to manage the volatility and risks associated with global financial integration.

65. (A) I, II, and III
The Board of Governors of the Federal Reserve System consists of seven members who are nominated by the President and confirmed by the Senate. Each member serves a full term of fourteen years, with terms staggered so that one expires every two years. This long-term structure is designed to insulate the board from short-term political pressures and ensure policy continuity.

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66. (D) To eventually move on to market-based instruments for monetary policy conduct
In developing economies with shallow markets, central banks often start with direct credit controls. However, the ultimate goal of their institutional building efforts is to create deep and liquid financial markets. Once these markets are sufficiently robust, the central bank can transition from direct interventions to using market-based instruments, such as open market operations, for more efficient monetary policy conduct.

67. (D) Separation of Powers - Merging regulatory and supervisory roles to avoid conflict of interest
The theory of separation of powers, when applied to central banking, actually suggests that regulatory and supervisory roles should be kept distinct to avoid conflicts of interest. Merging these roles, rather than separating them, is what critics argue could compromise the central bank's primary objectives. Therefore, the idea that merging these functions avoids conflict is a misapplication of the separation of powers concept.

68. (B) Mechanics of Gold Standard and the dollar anchor
Prior to 1971, the global financial system relied on the mechanics of the Gold Standard and the US dollar as a central anchor. Under this system, countries maintained the value of their currencies relative to gold or the dollar, which naturally constrained the money supply. This framework provided a predictable mechanism for achieving price stability and maintaining the external value of national currencies.

69. (B) I, III, IV, and V
Central banks in developing countries face a "constrained optimization problem" because they must accelerate growth while operating in shallow, segmented markets. These environments

often suffer from market failure and financial repression. To overcome these constraints, central banks proactively engage in institution building. This is far more challenging than operating in the deep, highly diversified markets typically found in advanced, developed economies.

70. (C) I and III only
Central banking practice began with informal norms before being codified into law. Over time, operational strategies have been modulated to suit country-specific needs. While rules offer predictability, central banks in emerging economies often find strict, rigid rules unsuitable due to their unique structural features. Instead, they may require a degree of discretion to respond effectively to specific economic shocks and developmental requirements.

71. (B) It helps resolve autonomy and crisis dilemmas
Adopting international codes and standards provides central banks with a recognized framework for governance and transparency. This helps them resolve dilemmas regarding their autonomy from political pressure and better manage potential financial crises. By following global best practices, these institutions can enhance their credibility with international markets and the public while maintaining the necessary accountability for their policy decisions and operations.

72. (C) P-2, Q-4, R-1, S-3
The Sveriges Riksbank is historically recognized as the world's first central bank. The Bank of England was described as the "public exchequer" in its 1791 charter renewal. The Bank of France underwent nationalization in 1946 to support post-war reconstruction. Finally, the United States established the Federal Reserve System in 1913 through the Federal Reserve Act to stabilize its banking system.

73. (D) 2021 expenses exceeded the budgeted amount significantly
In 2020, the Federal Reserve reported significant earnings and remitted nearly $87 billion to the Treasury. By 2021, the system's operating expenses were successfully covered by its total earnings. The suggestion that 2021 expenses exceeded the budgeted amount significantly is incorrect based on the reported financial performance of the twelve regional banks during that specific fiscal period.

74. (B) Its decisions require no executive/legislative approval
The Federal Reserve System considers itself independent because its monetary policy decisions do not require the approval of the President or any legislative body. It operates with its own revenue sources rather than relying on Congressional funding. While it is subject to Congressional oversight and must report regularly, its day-to-day policy choices remain insulated from the immediate political cycle.

75. (B) I, III, and IV
Central banks in developing countries act as facilitators for financial market development and work to ensure smooth monetary transmission. They also strive to meet government financial needs while pursuing socio-economic goals. However, these banks rarely operate under conditions of complete autonomy; instead, they often face significant fiscal dominance due to their close coordination with government development policies.

76. (A) I, II, and IV
Older developing countries evolved their banking systems gradually, whereas transition economies could "graft" advanced frameworks directly from developed nations. This late-comer advantage allowed them to choose from various modern systems. However, simply grafting models is not always immediately suitable for all developing countries, as local structural features must be compatible with the sophisticated tools being introduced from advanced economies.

77. (D) Direct or sector-specific tools in the conduct of monetary policy
When underdeveloped markets hinder the effectiveness of interest rate signals, a central bank must rely on more direct operational approaches. This includes using direct or sector-specific tools to influence credit flow and money supply. Unlike market-based instruments, these tools allow the authority to target specific economic areas, overcoming the limitations of fragmented and shallow financial infrastructures in transmitting monetary policy.

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78. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In developing nations, the central bank's responsibility for economic development necessitates close coordination with fiscal policy. However, this reliance often creates a threat of fiscal dominance, where government spending needs dictate monetary decisions. This dominance can adversely impact the bank's ability to maintain price stability, making the balance between supporting growth and controlling inflation a critical challenge.

79. (A) Financial deepening and financial widening
Financial widening refers to the expansion of the number and types of financial institutions in an economy. Financial deepening describes the increase in the volume and sophistication of financial instruments, such as derivatives and mutual funds, relative to economic activity. Together, these processes enhance the financial system's ability to mobilize savings and allocate credit effectively toward productive sectors.

80. (C) Post-1933 in the US and post-war in Germany
The authority to impose minimum reserve requirements became a standard tool for central banks in the mid-twentieth century. Specifically, these powers were granted in the United States after 1933 and in Germany following the Second World War. This stipulation allows central banks to directly manage the money supply by controlling the amount of lendable funds held by commercial banks.

81. (A) Practice evolved via country-specific history
Central banking lacks a single, universal generic theory because the practice evolved differently in each nation based on unique historical, political, and economic contexts. Rather than following a pre-existing theoretical framework, central banks adapted their roles and tools to address specific domestic challenges over centuries. This country-specific evolution means that what works in one economy may not be applicable elsewhere.

82. (B) Permanently abandoning the mandate of maintaining payment and settlement systems
During the Covid-19 pandemic, central banks acted decisively to mitigate economic damage and support financial markets. They implemented various measures to shore up liquidity and steer economies toward revival. However, they did not abandon their mandate for maintaining payment and settlement systems; on the contrary, ensuring the continued efficiency of these systems was essential for financial stability during the crisis.

83. (C) The granting of independence to Banque de France in 1993
The 1993 granting of independence to the Bank of France was a major structural reform aimed at insulating monetary policy from political influence. This move was intended to ensure price stability as a prerequisite for joining the European monetary union. It successfully removed the government's ability to manipulate dividend payments or influence interest rates for short-term political gains, mirroring modern central banking standards.

84. (A) P-2, Q-4, R-3, S-1
The 1844 Bank Charter Act gave the Bank of England a note-issuing monopoly. The 1791 renewal recognized its role as the public exchequer. The 1957 Bundesbank Law created a federal bank that integrated Germany's separate financial units. Finally, the 1913 Federal Reserve Act established a centralized banking system in the US to address the instability caused by frequent financial panics.

85. (A) Pursuing a target and accountability for the band
Inflation targeting is a monetary policy framework where a central bank publicly announces a specific target for the annual inflation rate. The institution is then held accountable for maintaining inflation within a pre-assigned band around this target. This regime prioritizes price stability and uses transparency to anchor public expectations, making the central bank's objectives clear to the markets.

86. (D) Constrained optimization problem - Telescoping the process of growth while constrained by underdeveloped markets
Central banks in developing countries face a "constrained optimization problem" because they must telescope growth within underdeveloped and shallow financial markets. Unlike advanced economies, they cannot rely purely on market-based instruments from the start. Instead, they

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must proactively build institutions and may use direct credit tools while working to overcome the structural constraints that limit efficient monetary policy transmission.

87. (B) Board for Financial Supervision (BFS) - Functions outside the ambit of the Reserve Bank of India
The Board for Financial Supervision is an apex-level supervisory authority that functions within the ambit of the Reserve Bank of India, not outside it. This is a contrast to the UK's Financial Services Authority, which was established as an independent body outside the central bank. Housing supervision within the central bank remains a common structural model, though it is subject to regulatory debate.

88. (A) P-2, Q-4, R-1, S-3
The Bank Charter Act was enacted in 1844, while the Bank of France gained independence in 1993. Earlier, in 1973, statutes were approved that gave the French minister control over dividend payments. Finally, the official conversion of member countries to the Euro occurred in 1999, marking a significant milestone in European monetary integration and the role of national central banks.

89. (C) Assertion (A) is true, but Reason (R) is false.
While currency management is indeed more complex in developing countries, the reason provided is incorrect. In these nations, there is actually a preponderant use of physical currency rather than cheques or drafts for payment. This high currency-to-deposit ratio is what creates the logistical and management challenges for central banks, as cash remains the primary medium for most economic transactions.

90. (C) Both I and II
Empowering central banks to impose minimum reserve requirements provided them with a direct and effective tool for monetary management. By adjusting these requirements, the central bank can influence the total volume of credit that commercial banks can create. This mechanism is essential for controlling the money supply and ensuring that banks maintain adequate liquidity to meet their obligations to depositors.

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91. (A) I, II, III, and V
Central bank mandates expanded during the Great Depression to include growth and employment. The lender-of-last-resort function became critical for stability, though it introduced the risk of moral hazard. To counter this, banks strengthened their regulatory roles. Importantly, they do not extend support at subsidized rates to reward risk; instead, they typically charge penal rates to discourage irresponsible banking behavior.

92. (C) Separating debt management and ensuring autonomy
When a government forces its central bank to fund deficits, it causes inflation and erodes income, demonstrating the dangers of fiscal dominance. To prevent this, structural reforms should focus on separating debt management from monetary policy and ensuring central bank autonomy. By granting independence, the bank can prioritize price stability over the government's short-term financing needs, protecting the economy's health.

93. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
During the 1960s and 1970s, many nations experienced high inflation due to undue fiscal expansion, particularly in Latin America. These experiences highlighted the risks of government interference in monetary affairs. As a result, professional thinking moved toward supporting central bank independence, emphasizing that an autonomous institution is better equipped to maintain long-term price stability than one subject to political pressure.

94. (C) Developing countries show high currency to deposit ratios
Developing countries are characterized by high currency-to-deposit ratios because cash remains the dominant method for making payments. In contrast, advanced economies have more sophisticated financial infrastructures where cheques, credit cards, and digital transfers are the norm. This difference means central banks in developing nations must focus heavily on the physical management and distribution of banknotes to support the economy.

95. (D) Use discretion given specific emerging features
In emerging economies facing structural bottlenecks, rigidly following fixed rules can be counterproductive during a crisis. Instead, central banks often use discretion, applying subjective judgment and situational policy adjustments. This flexibility allows them to respond more effectively to unique local challenges, such as capital flight, that a one-size-fits-all, rules-based framework might not adequately address in a volatile environment.

96. (A) Only I
The proliferation of financial instruments and various crises have placed price and financial stability at the center of central banking concerns. However, in the late twentieth century, monetary policy formulation was primarily driven by concerns about inflation, not deflation. Ensuring that currency maintains its value while preventing systemic collapses remains the fundamental challenge for modern central banks in a globalized economy.

97. (B) To penalize the bank and discourage moral hazard
When a central bank charges penal interest rates and conducts forensic audits on a failing bank, its primary goal is to discourage moral hazard. By making emergency support costly and intrusive, the central bank signals that it will not provide an easy bailout for irresponsible risk-taking. This approach penalizes the specific institution and serves as a deterrent to others in the banking system.

98. (B) Sweden (1668)
While the Sveriges Riksbank was indeed founded in 1668, the question asks for countries correctly paired with their central bank establishment year in the nineteenth century. Sweden's bank was established in the seventeenth century, making it an outlier in this context. Other nations like France, the Netherlands, and Germany founded their central banking institutions during the 1800s as they modernized.

99. (A) P-2, Q-1, R-4, S-3
The Federal Reserve System's structure includes a seven-member Board of Governors nominated by the President. The Federal Open Market Committee consists of these governors plus twelve regional bank presidents. Twelve regional banks are situated in major cities across the United States. While all twelve presidents attend committee meetings, only five hold voting rights at any one time on a rotating basis.

100. (A) P-2, Q-1, R-4, S-3
The Federal Reserve's dual mandate focuses on employment and price stability. Moral hazard describes banks becoming complacent due to expected bailouts. Fiscal dominance represents the threat to monetary policy when a central bank must finance government debt. Finally, financial deepening is characterized by the expansion and increased sophistication of financial instruments available within an economy's financial system.

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CHAPTER 02
Functions of Central Banks

May/June 2023

1. A government faces a severe short-term budgetary shortfall and demands that its central bank artificially depress interest rates to contain the burden of interest payments on government debt. If the central bank complies, what is the most likely consequence for the economy?
(A) The central bank achieves total independence in formulating its primary monetary policy.
(B) The central bank ensures the total success of the borrowing program without any conflict.
(C) The central bank completely eliminates the 'crowding out effect' within the private sector.
(D) The central bank may sacrifice its long-term goals to meet short-term budgetary imperatives.

Oct/Nov 2018

2. Identify the correct statement concerning the root causes of bank losses.
(A) Dealing with a bank crisis without tackling real sector distortions prevents the repeat of a crisis situation.
(B) Bank losses primarily stem from remarkably low levels of non-performing assets across the financial system.
(C) Real sector distortions, fiscal imbalances, or structural economic issues often act as root causes of bank losses.
(D) A sound and competitive operating environment for banks eliminates the need for a stable macroeconomic environment.

May/June 2007

3. What is the most appropriate theoretical argument for separating debt management from monetary policy management?
(A) Preventing an independent debt management agency from artificially depressing the interest rate environment.
(B) Placing an independent debt management agency in a better position for effective open market operations.
(C) Avoiding the sacrifice of long-term debt goals for short-term budgetary imperatives.
(D) Removing the necessity for fiscal and monetary transparency via an independent debt management agency.

Oct/Nov 2025

4. Nine banks have been identified for participation in the RBI's Digital Rupee - Wholesale segment (e₹-W) pilot project. Which of the following is NOT one of those nine banks?
(A) State Bank of India
(B) Kotak Mahindra Bank
(C) Punjab National Bank
(D) IDFC First Bank

May/June 2012

Which of the following best defines the concept of multiple credit creation implies which of the following regarding commercial banks?
(A) Banks merely act as purveyors of physical currency without influencing the total deposit balances in the economy.
(B) Banks create money as credit extension increases deposit balances in receiving banks, allowing further lending.
(C) Banks issue promissory notes fully backed by precious metals to facilitate trade within the industrial sectors.
(D) Banks create money strictly by issuing central bank digital currency to their institutional account holders.

Oct/Nov 2014

6. Match the digital currency and technology concepts in List I with their descriptions in List II and select the correct answer using the options given below:
List I: (Term)
P. Central Bank Digital Currency (CBDC)
Q. Digital Currency
R. Bitcoin

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S. Distributed Ledger Technology (DLT)

List II: (Description)

1. A means of payment that only exists electronically
2. An electronic ledger system employing blockchain technology
3. A digital banknote that is a liability of the central bank
4. A privately issued digital currency using DLT

(A) P-1, Q-3, R-2, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

May/June 2019

7. Which of the following best defines the monetization of government debt?

(A) The absorption of excess quantum of securities by the private sector to bridge budgetary gaps.
(B) Money creation by the central bank extending credit against bills placed by the government.
(C) The management of the maturity pattern of government securities through open market operations.
(D) The issuance of additional debt to the non-government sector to offset fiscal deficits.

Oct/Nov 2006

8. Read the following statements regarding the lender-of-last-resort function:

I. Central banks should provide liquidity to insolvent banks to prevent systemic crises.
II. The central bank provides liquidity to commercial banks through the discount window during temporary shortages of funds.
III. Restrictive action on discount window operations by the US Fed prior to the Great Depression reduced the volume of discount window loans.
IV. The development of sophisticated inter-bank markets entirely eliminates the need for a central bank to act as a lender-of-last-resort.

Which of the above statement(s) is/are correct?

(A) I and III
(B) II and III
(C) II and IV
(D) I, II, and IV

May/June 2021

9. Which conceptual relationship governs the expansion of money in an economy?

(A) An increase in the Cash Reserve Ratio proportionally increases the money multiplier.
(B) A given increase in base money brings about multiplier times increase in money supply.
(C) An increase in government deposits directly decreases the total foreign exchange reserves.
(D) An increase in base money leads to a fractional decrease in the total money supply.

Oct/Nov 2010

10. Match the organizational structures of debt management in List I with the corresponding country models in List II and select the correct answer using the options given below:

List I: (Organizational Structure)

P. Autonomous debt management office to improve operational efficiency
Q. Separate office under the aegis of the Ministry of Finance to balance public policy and financial management
R. Structure initially placed under the Ministry of Finance in developing countries
S. Structure unsuitable for countries where fiscal deficits are high and financial markets are underdeveloped

List II: (Country/Category)

1. Australia, France, and the US
2. Separate debt management office
3. Developing countries expert opinion
4. Germany and the UK

(A) P-1, Q-4, R-2, S-3
(B) P-2, Q-3, R-4, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-2, R-1, S-4

May/June 2005

11. Read the following statements regarding central bank money in the United States and select the correct answer using the options given below:

I. Physical currency issued by the Fed Reserve represents one type of central bank money.
II. Digital balances held by commercial banks at the Fed Reserve represent the second type of central bank money.

Which of the above statement(s) is/are correct?

(A) Statement I is correct, but Statement II is

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incorrect.
(B) Statement I is incorrect, but Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Oct/Nov 2022

12. Identify the correct statement regarding fiscal-monetary policy co-ordination.
(A) The IMF states that fiscal and monetary transparency causes sub-optimal central bank scenarios.
(B) The IMF claims fiscal-monetary coordination inherently impairs price stability as a primary objective.
(C) The IMF stresses adopting transparency to facilitate a deeper understanding by the authorities.
(D) The IMF discourages routine interaction regarding the specific borrowing programme schedule.

May/June 2018

13. A severe banking crisis causes multiple banks to face insolvency, and the central bank ultimately bails them out. In the final analysis, how are the financial losses from this bailout distributed within the economy?
(A) The losses are passed to society through higher taxes or debt, despite being held by the government first.
(B) The losses are entirely absorbed by the foreign exchange reserves maintained by the national central bank.
(C) The losses are isolated within the specific deposit balances of the defaulting commercial banking entities.
(D) The losses are neutralized through the strategic issuance of a newly developed central bank digital currency.

Oct/Nov 2016

14. A commercial bank experiences a sudden, heavy demand from its depositors. After a rapid assessment, the central bank determines that the bank's assets exceed its liabilities, but its assets are currently tied up in long-term loans. How should the central bank respond in its role as lender-of-last-resort?
(A) Refuse intervention because the bank is insolvent.
(B) Bail out the bank unconditionally at a sub-market interest rate.
(C) Bail out the bank because it is solvent but illiquid.
(D) Let the bank fail because rescuing it would trigger an immediate systemic crisis.

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May/June 2014

15. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): The monetary policy function of central banks has evolved to encompass regulatory and supervision functions.
Reason (R): When the monetary authority stipulates a cash reserve ratio, regulatory systems must be in place to ensure defaulting banks are made to comply and are appropriately penalized.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

16. In the European context, which central bank enjoys the constitutional prerogative of functioning as an independent monetary authority whose view prevails whenever a conflict arises with the government?
(A) German Bundesbank
(B) Bank of England
(C) Banque de France
(D) Swiss National Bank

May/June 2025

17. Identify the INCORRECT statement regarding the Digital Rupee - Wholesale segment (e₹-W) pilot project launched by the Reserve Bank of India.
(A) The settlement in e₹-W increases transaction costs by requiring a separate settlement guarantee infrastructure.
(B) The pilot project was launched by the RBI on 1st November 2022.

(C) The use case for the pilot is the settlement of secondary market transactions in government securities.
(D) Use of e₹-W is expected to make the inter-bank market more efficient.

Oct/Nov 2019

18. Central banks generally use various tools of monetary policy to minimize or neutralize the impact of monetization of public debt. Which of the following is NOT one of the tools typically used for this specific purpose?
(A) Issuance of Central Bank Digital Currency (CBDC)
(B) Variation in reserve requirements
(C) Open market operations
(D) Sale of government securities

May/June 2009

19. Read the following statements regarding the monetary policy functions of central banks:
I. Central bank credit to government and the net foreign exchange reserves position are two important factors contributing to monetary expansion.
II. Reserve Money (RM) consists solely of the balances maintained by commercial banks with the central bank.
III. The ratio of money supply to base money is called the money multiplier.
IV. A given increase in base money brings about an equivalent increase in the total money supply.
V. As central banks started financing public debt, Government Paper came to be accepted as backing for currency issue.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, IV, and V
(C) I, III, IV, and V
(D) I, III, and V

Oct/Nov 2011

20. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): A central bank should charge a penal rate of interest when providing accommodation to banks during the early stages of a panic.
Reason (R): Charging a penal rate deters banks from taking a complacent attitude in managing their portfolio and mitigates the moral hazard problem.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

21. A central bank forecasts a warranted rate of monetary expansion for the year. Commercial banks in the economy subsequently see their deposit growth align exactly with these monetary projections. What determines the corresponding credit expansion of these commercial banks?
(A) The immediate issuance of physical currency by the central bank.
(B) The complete removal of the cash reserve ratio.
(C) The commercial banks' deposit growth, making credit policy an adjunct to monetary policy.
(D) The direct conversion of foreign exchange reserves into base money.

Oct/Nov 2024

22. Read the following statements regarding the reasons central banks undertake the management of public debt:
I. Central banks manage public debt because of the complementary nature of monetary and fiscal policies.
II. Government securities issued during market borrowing serve as backing for note issue and are used in Open Market Operations.
III. By managing public debt, the central bank is in a better position to influence the interest rates in the economy.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I, II, and III
(C) II and III only
(D) I and III only

May/June 2017

23. Which of the following best defines systemic risk in the context of the banking sector?

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(A) The risk that an individual borrower defaults on a specific credit limit extended by a commercial bank.
(B) The risk that a central bank fails to coordinate monetary policy effectively with national fiscal policy.
(C) The risk that an increase in base money fails to trigger the expected secondary expansion in money supply.
(D) The risk that depositors lose faith in a bank, causing withdrawals from sound institutions system-wide.

Oct/Nov 2005

24. An economy has a money multiplier of 1.8. The central bank initiates actions that increase the base money by ₹2000 crore. What will be the corresponding increase in the total money supply?
(A) ₹1111 crore
(B) ₹2000 crore
(C) ₹3800 crore
(D) ₹3600 crore

May/June 2020

25. Identify the INCORRECT pair regarding the origins of the lender-of-last-resort concept.
(A) Baring (1797) — Coined the term lender-of-last-resort
(B) Keynes (1936) — Established the cornerstone of lender-of-last-resort theory
(C) Thornton (1802) — Works containing the origins of the concept
(D) Bagehot (1873) — Popularized the concept

Oct/Nov 2015

26. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): A central bank may attempt to neutralize the liquidity-creating impact of a fiscal deficit by selling securities to the private sector.
Reason (R): The withdrawal of financial resources from the private sector through the sale of securities leads to a reduction in the level of private investment, termed the 'crowding out effect'.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

27. On what date did the Reserve Bank of India launch the retail version of the Central Bank Digital Currency (CBDC)?
(A) 1st October 2022
(B) 1st November 2022
(C) 1st December 2022
(D) 1st January 2023

Oct/Nov 2021

28. Read the following statements and select the correct answer using the options given below:
I. Appropriately designing the issuance of government securities according to a desired pattern of maturity helps the government avert possible bunching of liquidity requirements.
II. A well-planned market borrowing program helps the monetary authority avert possible short-term inflationary pressures.
Which of the above statement(s) is/are correct?
(A) Statement I is correct, but Statement II is incorrect.
(B) Statement I is incorrect, but Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

May/June 2024

29. Which of the following defines the money multiplier?
(A) The ratio of the cash reserve ratio to the statutory liquidity ratio.
(B) The ratio of base money to the net foreign exchange reserves.
(C) The ratio of the total money supply to the base money or high powered money.
(D) The ratio of government deposit balances to government liabilities with the central bank.

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Oct/Nov 2008

30. Who popularized the concept of the central bank as a lender-of-last-resort in 1873, stating that liquidity should be provided to solvent but illiquid banks at a high rate of interest?
(A) Thornton
(B) Baring
(C) Keynes
(D) Bagehot

May/June 2006

31. Identify the correct statement regarding the historical development of payment and settlement systems.
(A) Payment and settlement systems evolved solely from electronic fund transfers in the 1990s.
(B) The Giro system emerged in Asia during the late nineteenth century as a private clearing initiative.
(C) Clearing Houses in the UK replaced the earlier system traced back to Coffee Houses where cheques were exchanged.
(D) The Bank of England completely refused to perform paper cheque clearing during its formative years.

Oct/Nov 2017

32. Which country was the first to adopt price level targeting after the collapse of the gold standard?
(A) United Kingdom
(B) Sweden
(C) New Zealand
(D) Canada

May/June 2008

33. Which concept describes a system where it is sufficient for an issuing authority to maintain only a portion of the value of notes issued as precious metal reserves?
(A) Full convertibility system
(B) Fractional reserve system
(C) Pure fiat standard
(D) Gold specie standard

Oct/Nov 2013

34. Read the following statements regarding the features of the Bretton Woods system:
I. The US dollar officially emerged as a pivot currency.
II. Members could keep their exchange rates within one per cent of the agreed par value.
III. A member could propose a change in par value only if it had a 'fundamental disequilibrium'.
IV. The IMF peg was theoretically gold, but in reality, countries pegged their currencies to the US dollar.
Which of the above statement(s) is/are correct?
(A) I, II, and IV
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, III, and IV

May/June 2015

35. A developing country's government needs to borrow heavily. To ensure the success of this borrowing program, the central bank mandates commercial banks to maintain a certain proportion of their assets in government securities. Which monetary tool is being applied?
(A) Statutory Liquidity Ratio (SLR)
(B) Open Market Operations (OMO)
(C) Cash Reserve Ratio (CRR)
(D) Base Money Targeting

Oct/Nov 2012

36. During a currency crisis, an initial group of pessimistic investors provokes a massive capital outflow, which eventually forces the collapse of the exchange rate system. This validates the investors' initial negative expectations. Which theoretical model explicitly describes this self-fulfilling phenomenon?
(A) The second generation model of currency crises
(B) The purchasing power parity model
(C) The first generation model of balance of payments (Krugman)
(D) The money multiplier model

May/June 2011

37. Arrange the following historical events regarding the privilege of currency issuance in chronological order, from earliest to latest, and select the correct answer using the options given below:
I. First Bank of United States authorized to issue paper bank notes.
II. Bank of England begins issuing bank notes.
III. Banco de Portugal granted a monopoly of note issue.
IV. Banque de France granted exclusive privilege to issue bank notes in Paris.
(A) II, I, IV, III

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(B) I, II, III, IV
(C) II, IV, I, III
(D) IV, II, I, III

Oct/Nov 2020

38. Read the following statements regarding the challenges faced by central banks in developing countries:

I. Central banks must manage high levels of public debt through inflation tax.
II. Seignorage refers to the additional money created to garner resources for bridging the budgetary gap.
III. The use of inflation tax supports the central bank's price stability objective.
IV. Central bankers as debt managers often try to keep interest rates artificially low.
V. Keeping interest rates artificially low leads to financial repression.

Which of the above statement(s) is/are correct?
(A) I, III, IV, and V
(B) II, III, IV, and V
(C) I, II, III, and V
(D) I, II, IV, and V

May/June 2022

39. Arrange the following international exchange rate regimes and events in chronological order and select the correct answer using the options given below:

I. Suspension of gold convertibility by the US (ending Bretton Woods).
II. Collapse of the gold standard during the First World War.
III. The Smithsonian Agreement widening the permissible band of movements.
IV. The introduction of Special Drawing Rights (SDRs) by the IMF.

(A) II, I, III, IV
(B) IV, II, I, III
(C) I, II, IV, III
(D) II, IV, I, III

Oct/Nov 2023

40. Over time, central banks have increasingly focused on macroeconomic and liquidity management regarding clearing activities. What is the most appropriate description of their current structural preference?

(A) They are increasingly taking over all operational clearing functions from private entities worldwide.
(B) They are delegating both clearing and settlement functions to the government treasury to ensure parity.
(C) They are abandoning the settlement function while strictly performing the clearing function for banks.
(D) They are relinquishing clearing functions but retaining settlement to ensure finality.

May/June 2016

41. Read the following statements regarding the underlying factors of the Asian Economic Crisis of 1997:

I. A large private sector deficit financed largely by short-term borrowing from abroad.
II. A regime of exchange pegs that could not cope with speculative attacks.
III. Strong domestic lending quality concentrated in areas yielding stable rates of return.
IV. Central banks showing willingness to absorb risks of exchange rate movements on behalf of investors.
V. Substantial inflows resulting in a rise in prices of non-tradables and appreciation of currencies.

Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, II, IV, and V
(C) II, III, IV, and V
(D) I, III, IV, and V

Oct/Nov 2009

42. Read the following statements regarding variants of organizational structure for payment and settlement systems followed by central banks:

I. Regulatory and operational aspects of clearing are fully managed by central banks.
II. Regulatory aspects are managed by central banks, while clearing operations are managed by private entities.
III. Regulatory aspects are managed by central banks, and clearing operations are shared by the central bank and participating entities.
IV. Regulatory and operational aspects are completely abdicated to international monetary bodies without central bank oversight.

Which of the above statement(s) is/are correct?
(A) I, III, and IV
(B) II, III, and IV

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(C) I, II, and III
(D) I, II, and IV

May/June 2023

43. A central bank operates under a mandate where it targets a specific inflation rate over a rolling two-year period. If it misses the target in year one, it adjusts its policy to compensate for this failure in year two to keep the long-term price trend stable. What specific monetary policy framework is this central bank strictly demonstrating?
(A) Aiming at price stability
(B) Specifying an inflation target
(C) Targeting the price level path
(D) Pure fiat standard management

Oct/Nov 2018

44. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): Abandoning the gold standard and its gradual replacement by the fractional reserve system led to increased risks to price stability.
Reason (R): Under the pure fiat standard, the central bank lost the mechanism of automatic adjustment of the internal purchasing power and external exchange rate of the currency.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2007

45. Match the aspects of the Asian Economic Crisis of 1997 in List I with their corresponding descriptions in List II and select the correct answer using the options given below:
List I: (Crisis Component)
P. The trigger for the crisis
Q. The region's prior economic state
R. Short-term debt over 200 per cent of total reserves in 1995/1996
S. The underlying cause regarding financial regulation
List II: (Description/Country)
1. Characterized by large investment boom and fairly high growth rates
2. Korea
3. Abandonment of the baht by Thailand
4. Financial deregulation not complemented by rigorous supervision
(A) P-1, Q-2, R-4, S-3
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-4, R-3, S-1

Oct/Nov 2025

46. Identify the INCORRECT statement regarding the currency management practices of central banks.
(A) Printing of Bank of England notes started only since 1855.
(B) The Monetary Authority of Singapore (MAS) directly performs the note issuance task.
(C) The Federal Reserve was entrusted with the job of printing money in 1913.
(D) The Greenbacks were issued by the US Treasury in 1862.

May/June 2012

47. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): The competitive exchange rate depreciation adopted by several primary producing countries during 1929-30 was largely unsuccessful.
Reason (R): The Bank of England had to abandon the gold standard in 1931, and the US Fed followed suit in 1933, making monetary policy excessively rigid.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

48. Match the geographical regions/countries in List I with their approach to payment and settlement

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systems in List II and select the correct answer using the options given below:
List I: (Region/Country)
P. United States
Q. United Kingdom and Canada
R. Singapore and Hong Kong
S. Sweden
List II: (Approach)
1. Clearing and processing delegated to private entities for over a century
2. Systems not operated by the central banks or monetary authorities
3. Central bank regulates clearing and also provides processing services alongside private entities
4. Central bank delegates clearing to private entities governed by an association of bankers
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

May/June 2019

49. Identify the correct pair that categorizes central banks based on their adoption of explicit inflation targeting.
(A) Explicit Targeting: Bank of England | No Explicit Targeting: Pre-ECB Bundesbank
(B) Explicit Targeting: Swiss National Bank | No Explicit Targeting: Bank of Canada
(C) Explicit Targeting: Pre-ECB Bundesbank | No Explicit Targeting: Reserve Bank of New Zealand
(D) Explicit Targeting: Swiss National Bank | No Explicit Targeting: Bank of England

Oct/Nov 2006

50. Match the economists in List I with their corresponding economic theories or observations in List II and select the correct answer using the options given below:
List I: (Economist)
P. Joseph Stigler
Q. John Maynard Keynes
R. Friedman and Schwartz
S. Phillips
List II: (Theory/Observation)
1. Argued the Great Depression was a consequence of a fall in money supply
2. Highlighted a short-run trade-off between inflation and growth
3. Emphasized fiscal policy as a tool of economic recovery and advocated price level targeting
4. Observed the phenomenon of stickiness in price behaviour
(A) P-2, Q-1, R-4, S-3
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-2, R-3, S-4

May/June 2021

51. The experience in East Asian countries underscores that certain prerequisites are necessary for a successful exchange rate peg. Which of the following is NOT one of those prerequisites?
(A) Low capital mobility
(B) High trade share with the country of anchor currency
(C) Similarity in the kind of shocks the countries are prone to
(D) High capital mobility

Oct/Nov 2010

52. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): Real Time Gross Settlement Systems (RTGS) are typically operated and managed by the Central Bank.
Reason (R): The Central Bank acts as the largest source of liquidity and ensuring settlement finality mitigates settlement risk to a large extent.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

53. Which of the following definitions best aligns with money functioning as a 'standard of deferred payment'?
(A) Money decomposes a single barter transaction into two separate transactions of purchase and sale for trade.

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(B) Money allows members of the public to hold their accumulated wealth over a significant duration of time.
(C) Money acts as a unit of account for future payments, such as interest and pensions.
(D) Money's value is purely intrinsic and independently determined by its specific metallic weight and purity.

Oct/Nov 2022

54. A country decides to fully open its financial markets, allowing full convertibility of its currency while attempting to maintain a fixed exchange rate and an independent monetary policy. According to financial literature, what is this combination known as?
(A) Constructive ambiguity
(B) The Phillips Curve trade-off
(C) The impossible trinity
(D) The money multiplier process

May/June 2018

55. Which concept describes the time that elapses between the initiation of action by the central bank and the time for realizing the set goals?
(A) Transmission lag
(B) Output gap
(C) Constructive ambiguity
(D) Inflation-growth trade-off

Oct/Nov 2016

56. A developing economy with a high saving-investment gap faces massive volumes of old and soiled notes in circulation. What mechanism do central banks in recent years employ to manage this specific issue?
(A) Utilizing soiled note destruction technology.
(B) Replacing all physical notes immediately with CBDC.
(C) Reverting to the gold standard to limit the number of notes in circulation.
(D) Delegating note destruction entirely to private commercial banks.

May/June 2014

57. What is the most appropriate reason for the IMF introducing the facility of Special Drawing Rights (SDRs) in 1967?
(A) Managing global liquidity due to inadequate arrangements for hard currency borrowing by deficit countries.
(B) Providing a total replacement for the US dollar as the primary pivot currency in the Bretton Woods system.
(C) Widening the permissible band of movements of exchange rates to 2.25 per cent to increase fiscal flexibility.
(D) Establishing a unified methodology for compiling a weighted average exchange rate across member nations.

Oct/Nov 2007

58. Read the following statements regarding the elements involved in the operational mechanics of currency management by a central bank:
I. Determining the currency composition between notes and coins.
II. Currency design, printing, storage, and distribution.
III. Fixing the market price of precious metals.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2025

59. Which of the following defines a currency crisis theoretically?
(A) A situation where a country's exports significantly exceed its imports for a prolonged period of time.
(B) A situation where the central bank manages clearing houses without any commercial bank participation.
(C) Expectations of an unsustainable peg trigger speculative activities, forcing official devaluation.
(D) A situation where a central bank completely replaces all physical currency with a digital currency.

Oct/Nov 2019

60. Countries must fulfill specific pre-requisites before adopting inflation targeting. Which of the following is NOT one of these pre-requisites?
(A) The central bank must be able to forecast inflation.
(B) The central bank should be legally obliged to finance the government budget.
(C) The central bank must possess effective market-determined monetary policy instruments.
(D) The central bank must be in a position to

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assess the impact of monetary policy on inflationary expectations.

May/June 2009

61. Read the following statements regarding the elements introduced by the Basel III capital regulations:

I. Introducing a leverage ratio to serve as a backstop to the risk-based capital measure.
II. Implementing a capital conservation buffer and a countercyclical buffer.
III. Replacing the supervisory review process (Pillar 2) entirely with market discipline.

Which of the above statement(s) is/are correct?

(A) II and III only
(B) I and III only
(C) I and II only
(D) I, II, and III

Oct/Nov 2011

62. Identify the INCORRECT statement regarding the Basel III capital regulations.

(A) They removed the leverage ratio requirement, relying solely on the risk-based capital measure.
(B) They were released as a comprehensive reform package in December 2010.
(C) They strengthen bank-level micro-prudential regulation to raise resilience in periods of stress.
(D) Their macro-prudential aspects are largely enshrined in the capital conservation buffer and the countercyclical buffer.

May/June 2010

63. A commercial bank deploys its fungible funds into high-yielding loan assets that mature in ten years. However, its primary liabilities consist of short-term deposits that can be withdrawn on demand. What specific operational risk has the bank created that may invite supervisory intervention?

(A) Asset-liability mismatch
(B) Off-balance sheet commitment mismatch
(C) Constructive ambiguity mismatch
(D) Currency composition mismatch

Oct/Nov 2024

64. A central bank uses the interest rate to affect aggregate spending in order to minimize the difference between the actual output of the economy and its potential output. What is this concept known as in the context of promotional functions?

(A) Financial repression
(B) Constructive ambiguity
(C) Output gap
(D) Monetization of debt

May/June 2017

65. Match the prudential regulations and requirements under the Core Principles in List I with their corresponding principle numbers in List II and select the correct answer using the options given below:

List I: (Requirement)

P. Risk management process
Q. Capital adequacy
R. Credit risk
S. Liquidity risk

List II: (Principle Number)

1. Principle 16
2. Principle 17
3. Principle 15
4. Principle 24

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-3, S-1

Oct/Nov 2005

66. In many developing countries, if the banking system is not regulated and directed specifically, what negative outcome frequently occurs regarding regional development?

(A) Savings are siphoned from poor to rich regions where returns are high and secure.
(B) The banking system enforces absolute parity in interest rates across all national sectors.
(C) Market mechanisms automatically ensure adequate credit is supplied to all backward sectors.
(D) The central bank immediately ceases all quasi-fiscal operations to support the government.

May/June 2020

67. The blurring of distinctions between banks and other financial institutions, universal banking, and innovations like derivatives have made financial supervision highly complex. How have supervisors worldwide primarily responded to these structural changes?

(A) By shifting emphasis away from macro-

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prudential analysis towards exclusively micro-prudential supervision.
(B) By applying only the Capital, Assets, Management, Earnings, Liquidity, and Sensitivity (CAMELS) approach.
(C) By shifting their emphasis to macro-prudential analysis, away from micro-prudential supervision.
(D) By letting private entities assume complete regulatory responsibility.

Oct/Nov 2015

68. Identify the correct pair regarding the Core Principles for Effective Banking Supervision.
(A) Principle 18 — Transactions with related parties
(B) Principle 20 — Transactions with related parties
(C) Principle 21 — Market risks
(D) Principle 28 — Country and transfer risks

May/June 2013

69. In evaluating financial stability, policymakers must consider the problem of 'irrational exuberance'. If irrational exuberance escalates asset prices, what subsequent event poses the greatest challenge for policy intervention timing and quantum?
(A) An unexpected and prolonged contraction of asset prices.
(B) The immediate adoption of a point target for inflation.
(C) The automatic adjustment mechanism of the gold standard.
(D) A uniform decrease in the statutory liquidity ratio.

Oct/Nov 2021

70. What is the primary justification for banking supervision?
(A) To facilitate the maximum possible expansion of branch networks.
(B) To ensure that banks generate a high volume of off-balance sheet items.
(C) To limit the risk of loss to depositors and maintain public confidence in banks.
(D) To dictate the specific interest rates commercial banks charge on consumer loans.

May/June 2024

71. Identify the INCORRECT statement regarding the history of financial stability and monetary systems.
(A) Under the gold standard, the central bank's ability to provide additional currency was completely unconstrained, preventing bank runs.
(B) During the gold standard, the central bank merely performed the duty of establishing parity between bank notes and available gold.
(C) After the Second World War, in the era of fiat money, the policy focus shifted towards the price stability issue.
(D) With increasing globalization in recent years, financial instability can spread easily from national to international markets.

Oct/Nov 2008

72. Match the Risk-Based Supervision frameworks/ practices in List I with their originating countries in List II and select the correct answer using the options given below:
List I: (Supervisory Framework)
P. RATE and SCALE approaches
Q. Office of the Superintendent of Financial Institutions (OSFI)
R. Australian Prudential Regulatory Authority (APRA)
S. RBS framework evaluated through two rounds of pilot runs covering 23 banks
List II: (Country)
1. Canada
2. Australia
3. India
4. United Kingdom
(A) P-1, Q-4, R-3, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-2, Q-3, R-1, S-4
(D) P-3, Q-2, R-4, S-1

May/June 2006

73. Read the following statements regarding the second group of the revised Core Principles (Principles 14 to 29):
I. Corporate governance
II. Supervisory techniques and tools
III. Problem assets, provisions, and reserves
IV. Home-host relationships
V. Interest rate risk in the banking book
Which of the above statement(s) is/are correct?

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(A) I, II, and III
(B) II, IV, and V
(C) I, IV, and V
(D) I, III, and V

Oct/Nov 2017

74. A central bank examiner verifies that a commercial bank has strict customer due diligence rules in place to prevent the bank from being used for criminal activities. Under which Core Principle is this examination conducted?
(A) Principle 26 - Internal control and audit
(B) Principle 27 - Financial reporting and external audit
(C) Principle 29 - Abuse of financial services
(D) Principle 28 - Disclosure and transparency

May/June 2008

75. Read the following statements regarding the inflation-growth trade-off and select the correct answer using the options given below:
I. The inflation-growth trade-off, enshrined in the Phillips Curve relationship, is relevant only in the shorter run.
II. Researchers have pointed out that in the medium to long run, if inflation exceeds a threshold level, growth suffers.
Which of the above statement(s) is/are correct?
(A) Statement I is correct, but Statement II is incorrect.
(B) Statement I is incorrect, but Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Oct/Nov 2013

76. Which of the following correctly identifies all the components of the CAMELS approach to bank supervision?
(A) Capital, Assets, Management, Earnings, Liquidity, and Systemic Risk
(B) Capital, Assets, Market Risk, Earnings, Liquidity, and Sensitivity
(C) Credit Risk, Assets, Management, Equity, Liquidity, and Stability
(D) Capital, Assets, Management, Earnings, Liquidity, and Interest Rate Sensitivity

May/June 2015

77. Read the following statements regarding precautionary measures that help in maintaining the financial stability of the economy:
I. Development of a set of standards and codes.
II. Asset classification procedures and income recognition principles.
III. Abandoning early warning signals in favour of strict inflation targeting.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2012

78. A banking supervisor sets strict limits to restrict a bank's exposures to a single large counterparty to prevent a localized default from threatening the bank's solvency. Which Core Principle for Effective Banking Supervision is the supervisor applying?
(A) Principle 16 - Capital adequacy
(B) Principle 25 - Operational risk
(C) Principle 29 - Abuse of financial services
(D) Principle 19 - Concentration risk and large exposure limits

May/June 2011

79. Identify the correct statement regarding the idea of a 'super regulator'.
(A) A super regulator structure exclusively supervises mutual funds for purely prudential reasons.
(B) Critics argue that the perception behind supervising banks and mutual funds cannot be identical.
(C) A super regulator notably increases existing problems of competitive inequality and duplication.
(D) Emerging market economies with non-complex financial systems require a super regulator immediately.

Oct/Nov 2020

80. Read the following statements regarding Principle 26 (Internal control and audit) of banking supervision:
I. Clear arrangements for delegating authority and responsibility.
II. Separation of functions that involve

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committing the bank and paying away its funds.
III. Independent external auditor's opinion on the financial condition.
IV. Appropriate independent internal audit and compliance functions.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, and IV

May/June 2022

81. Read the following statements regarding the components of financial markets and select the correct answer using the options given below:
I. Money market
II. Bond market
III. Foreign exchange market
IV. Capital market
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I, III, and IV only
(C) I, II, III, and IV
(D) II, III, and IV only

Oct/Nov 2023

82. Identify the correct statement regarding the 'three pillars' concept of the Basel II framework.
(A) The three pillars are minimum capital requirements, supervisory review, and market discipline.
(B) The three pillars are capital conservation buffer, countercyclical buffer, and leverage ratio.
(C) The three pillars are micro-prudential supervision, macro-prudential analysis, and deposit insurance.
(D) The three pillars are credit risk, market risk, and interest rate sensitivity.

May/June 2016

83. Match the Core Principles for Effective Banking Supervision in List I with their focus areas in List II and select the correct answer using the options given below:
List I: (Principle)
P. Principle 1
Q. Principle 5
R. Principle 8
S. Principle 12
List II: (Focus Area)
1. Licensing criteria
2. Responsibilities, objectives and powers
3. Consolidated supervision
4. Supervisory approach
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2009

84. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): A stable macroeconomic environment with low inflation and sustained growth guarantees financial stability in the short run.
Reason (R): Low and stable inflation can generate excessive optimism about future economic prospects and often downplays related risks.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

85. A commercial bank receives a proposal for a third party to acquire a controlling interest in the bank. After review, the banking supervisor ultimately rejects the proposal because the structure exposes the bank to undue risks. Which Core Principle empowers the supervisor to take this action?
(A) Principle 3 - Cooperation and collaboration
(B) Principle 10 - Supervisory reporting
(C) Principle 6 - Transfer of significant ownership
(D) Principle 11 - Corrective and sanctioning powers of supervisors

Oct/Nov 2018

86. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.

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Assertion (A): Arguments in favour of a unified approach to bank supervision and regulation state that a single entity offers 'economies of scale and scope'.
Reason (R): A regime of multiple agencies supervising similar products ensures 'competitive neutrality' and reduces uneven supervisory costs.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2007

87. Match the individuals in List I with their associated concepts or quotes in List II and select the correct answer using the options given below:
List I: (Individual)
P. Mishkin
Q. Dr. Y.V. Reddy
R. Alan Greenspan
S. John Maynard Keynes
List II: (Concept/Description)
1. Emphasized the role of fiscal policy as a tool of economic recovery
2. Defined financial stability involving efficient allocation of savings to investment opportunities
3. Highlighted the problem of "irrational exuberance" escalating asset prices
4. Described financial stability as uninterrupted financial transactions and absence of excessive volatility
(A) P-1, Q-3, R-2, S-4
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2025

88. Read the following statements regarding the structural reforms in financial supervision following the 2007/08 financial crisis and select the correct answer using the options given below:
I. In the United States under the Dodd-Frank bill, the responsibility for coordination is placed in a committee of regulators chaired by the secretary of the treasury.
II. In the UK, the responsibility for virtually all financial supervision is being transferred from the Financial Services Authority to the Bank of England.
Which of the above statement(s) is/are correct?
(A) Statement I is correct, but Statement II is incorrect.
(B) Statement I is incorrect, but Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

May/June 2012

89. Which of the following is the most appropriate indicator that financial stability exists in an economy?
(A) The central bank strictly operates under a pure fiat standard with no reserve backing.
(B) Uninterrupted financial transactions and an absence of volatility that adversely affects the real economy.
(C) A financial system guaranteeing efficient allocation of savings to investments, regardless of asset prices.
(D) The central bank completely separates its debt management function from its monetary policy function.

Oct/Nov 2014

90. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): Supervisors of cross-border banking groups must share information and cooperate for effective handling of crisis situations.
Reason (R): Principle 13 of the Core Principles dictates that home and host supervisors require local operations of foreign banks to be conducted to the same standards as domestic banks.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.

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(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

91. Identify the INCORRECT statement regarding Central Bank Communication Policies.
(A) 'Monetary mystique' and 'constructive ambiguity' were expressions reflecting a lack of transparent communication in the past.
(B) 'Constructive ambiguity' represents the maximum degree of transparency achievable in policy announcements.
(C) Adoption of inflation targeting has made communication an integral part of policymaking.
(D) Recent innovations in communication technology have led to the possibility of spillovers across markets.

Oct/Nov 2006

92. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the options given below.
Assertion (A): Oligopolistic tendencies have hindered the development of interbank markets in countries such as Jordan, Iceland, and Finland.
Reason (R): A banking system characterized by high levels of bad loans, currency mismatches, and loss-making structures renders the task of monetary policymaking difficult.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

93. To support government growth initiatives, a central bank in a developing country micro-allocates credit and provides credit subsidies to preferred sectors. What is the most likely negative consequence of this dirigiste, quasi-fiscal approach?
(A) Complete elimination of non-performing loans in commercial banks.
(B) Enhancing the efficiency of the monetary base multiplier without complication.
(C) 'Crowding in' of private enterprise as public enterprise funding decreases.
(D) Distorting the markets and sowing the seeds of financial repression.

Oct/Nov 2010

94. Identify the INCORRECT pair regarding the restructuring of financial supervision post-2008 crisis.
(A) United States — Responsibility for coordination placed in a committee of regulators chaired by the Secretary of the Treasury
(B) United Kingdom — Responsibility for virtually all financial supervision transferred to the Bank of England
(C) Europe — All supervisory authorities abolished in favor of pure ECB inflation targeting
(D) United Kingdom — Financial Stability Committee chaired by the Governor of the Bank of England

May/June 2005

95. Read the following statements and select the correct answer using the options given below:
I. The Bank of England established the Reconstruction Finance Corporation for the supply of long-term capital for depressed industries.
II. The Reserve Bank of India took initiatives in setting up development finance institutions such as IDBI and NABARD.
Which of the above statement(s) is/are correct?
(A) Statement I is correct, but Statement II is incorrect.
(B) Statement I is incorrect, but Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Oct/Nov 2022

96. Read the following statements regarding elements identified as hindering financial market development:
I. High dependence on regulation
II. Thin and oligopolistic financial markets
III. Unhealthy banking system
IV. Excessive taxation

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V. Deep securities markets

Which of the above statement(s) is/are correct?

(A) I, II, III, and V
(B) I, II, III, and IV
(C) II, III, IV, and V
(D) I, III, IV, and V

May/June 2018

97. Central banks face several issues and challenges in their communication policies today. Which of the following is NOT typically one of these challenges?

(A) Determining whether the mode and method of communication should be different for different agents.
(B) Minimizing the risks of spillover effects and the spread of contagion across countries.
(C) Tailoring communications to instill confidence in the minds of market players.
(D) Reverting to the gold standard to eliminate the need for any public risk assessments.

Oct/Nov 2016

98. Historically, central banks used expressions that represented their stance towards policy communications, reflecting theoretical divergences and uncertainty. With the modern adoption of inflation targeting, how has this posture changed?

(A) Central banks have entirely stopped publishing monetary policy announcements to preserve independence.
(B) Transparent communication is now integral to policymaking and shaping expectations.
(C) Central banks have deepened their reliance on 'constructive ambiguity' to confuse speculative market players.
(D) Central banks now utilize 'monetary mystique' to anchor long-term interest rates.

May/June 2014

99. How does the financial sector reform process in most developing countries typically contrast with reforms in developed countries?

(A) It is generally a mainstream process initiated solely by private commercial banks.
(B) It is a one-time event characterized by immediate, complete deregulation.
(C) It strictly avoids market-oriented systems in favour of complete regimentation.
(D) It is a gradual, decade-long process often starting with the end of repression.

Oct/Nov 2007

100. Read the following statements about the development of financial markets and institutions by central banks in developing countries:

I. Central banks take on the responsibility of nurturing and developing financial institutions because their transmission channels for monetary policy are often weak.
II. Expanding the commercial bank network replaces informal credit and usurious relationships with adequate formal credit.
III. Introducing deposit insurance and credit guarantee schemes completely eliminates moral hazard issues among banks.

Which of the above statement(s) is/are correct?

(A) II and III only
(B) I and III only
(C) I, II, and III
(D) I and II only

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ANSWERS

1. (D) The central bank may sacrifice its long-term goals to meet short-term budgetary imperatives.
Central banks under government pressure to keep interest rates artificially low for budgetary reasons face a compromise in their mandate. This scenario leads to a prioritization of short-term fiscal relief over long-term price stability. Consequently, the primary objective of maintaining low inflation and economic stability is often sacrificed to manage the sovereign debt burden effectively within the national economy.

2. (C) Real sector distortions, fiscal imbalances, or structural economic issues often act as root causes of bank losses.
Financial instability within the banking sector is frequently linked to broader macroeconomic issues. Structural distortions in the real economy, persistent fiscal imbalances, and economic volatility create an environment where banks struggle to maintain healthy balance sheets. Addressing these fundamental issues is essential because simple financial bailouts without resolving the underlying structural economic problems often fail to prevent future crises.

3. (C) Avoiding the sacrifice of long-term debt goals for short-term budgetary imperatives.
Separating these functions ensures that monetary policy is not compromised by fiscal requirements. When the same entity manages both, there is a risk that interest rates will be kept low solely to reduce government borrowing costs. Dedicated debt management allows the central bank to focus on inflation control while the debt agency focuses on long-term debt sustainability and cost-effectiveness.

4. (C) Punjab National Bank
The Reserve Bank of India selected nine specific banks for its wholesale digital rupee pilot project launched in November 2022. These institutions include major public and private sector players like the State Bank of India, Kotak Mahindra Bank, and IDFC First Bank. However, Punjab National Bank was not among the entities chosen for the initial phase of this wholesale segment project.

5. (B) Banks create money as credit extension increases deposit balances in receiving banks, allowing further lending.
Commercial banks contribute to money supply expansion through the process of credit extension. When a bank provides a loan, it creates a deposit for the borrower, which is then used for transactions. These funds eventually flow into other banks as new deposits, enabling further rounds of lending. This fractional reserve mechanism results in the total money supply exceeding the initial base money.

6. (B) P-3, Q-1, R-4, S-2
Central Bank Digital Currencies are electronic liabilities issued directly by a central bank. General digital currency refers to any payment method existing only in electronic form. Bitcoin represents a prominent example of a private digital currency utilizing distributed ledger technology. Meanwhile, the ledger system itself, often employing blockchain technology to record transactions across multiple nodes, is known as distributed ledger technology.

7. (B) Money creation by the central bank extending credit against bills placed by the government.
Monetization occurs when a central bank creates new money to finance a government's fiscal deficit. This usually involves the central bank directly purchasing government securities or extending credit against government bills. Unlike borrowing from the private market, this process increases the monetary base and overall money supply, which can lead to inflationary pressures if not managed carefully by the monetary authorities.

8. (B) II and III
Central banks function as a backstop for the financial system by providing liquidity to solvent banks facing temporary fund shortages. This is traditionally achieved through the discount window. Historical evidence suggests that

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restrictive access to such facilities, as seen in the United States before the Great Depression, can exacerbate financial crises by reducing the volume of emergency loans available.

9. (B) A given increase in base money brings about multiplier times increase in money supply.
The money supply in an economy is determined by the relationship between the monetary base and the money multiplier. Any change in the base money, consisting of currency and bank reserves, leads to a larger, proportional increase in the total money supply. This multiplier effect is governed by factors like the reserve requirements and the public's preference for holding cash.

10. (C) P-4, Q-1, R-3, S-2
Institutional frameworks for debt management vary by country. Germany and the United Kingdom utilize autonomous offices to enhance operational efficiency. Australia, France, and the United States maintain offices under the Ministry of Finance to balance policy goals. Expert opinion suggests that separate debt offices may be unsuitable for developing countries with high fiscal deficits and underdeveloped financial markets.

11. (C) Both Statement I and Statement II are correct.
In the United States, central bank money exists in two primary forms. The first is physical currency, consisting of Federal Reserve notes issued for public use. The second form consists of digital balances held by commercial banks in their accounts at the Federal Reserve. Both components are direct liabilities of the central bank and form the basis of the nation's monetary system.

12. (C) The IMF stresses adopting transparency to facilitate a deeper understanding by the authorities.
Effective coordination between fiscal and monetary authorities is vital for economic stability. The International Monetary Fund emphasizes that transparency in both policy areas helps authorities understand the implications of their actions. Shared information regarding borrowing schedules and fiscal targets allows the central bank to manage liquidity more effectively, ensuring that monetary objectives like price stability are not undermined.

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13. (A) The losses are passed to society through higher taxes or debt, despite being held by the government first.
While a government may initially provide the capital required to bail out insolvent banks, the ultimate financial burden rests on the broader economy. These losses are eventually distributed to society through various channels, including increased tax rates or higher levels of public debt. This transfer of private banking failures to public accounts highlights the significant social costs of systemic crises.

14. (C) Bail out the bank because it is solvent but illiquid.
When a bank is solvent but faces a liquidity crisis due to a sudden withdrawal of deposits, the central bank should intervene. Providing emergency liquidity prevents a temporary shortage from escalating into a systemic panic. This action preserves the stability of the banking system while ensuring that the institution, which possesses sufficient long-term assets, can continue its regular operations.

15. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The role of central banks has expanded beyond simple monetary control to include comprehensive regulation and supervision. This evolution is necessary to enforce monetary tools effectively. For instance, when a central bank sets a cash reserve ratio, it must have the legal authority and supervisory mechanisms to monitor compliance and penalize defaulting banks, ensuring the integrity of the framework.

16. (A) German Bundesbank
The German Bundesbank is historically recognized for its high degree of institutional independence. It possessed a clear legal mandate where its view on monetary matters would prevail in the event of a conflict with the government. This structure was designed to prioritize the objective of price stability, shielding the monetary authority from political pressures that might lead to inflationary policies.

17. (A) The settlement in e₹-W increases transaction costs by requiring a separate settlement guarantee infrastructure.
The Digital Rupee - Wholesale pilot project aims to streamline the settlement of secondary market transactions in government securities. By utilizing central bank digital currency, the system is expected to reduce transaction costs and improve inter-bank efficiency. e₹-W removes the need for expensive settlement guarantee infrastructure and collateral by enabling near real-time, final settlement of financial obligations between banking entities.

18. (A) Issuance of Central Bank Digital Currency (CBDC)
Central banks use specific instruments like open market operations and variations in reserve requirements to manage the liquidity impact of financing government debt. These tools help absorb the excess money created during the monetization process. However, the issuance of Central Bank Digital Currency is a modern payment system innovation and is not a traditional tool designed to neutralize debt-related monetization.

19. (D) I, III, and V
Monetary expansion is driven by central bank credit to the government and changes in foreign exchange reserves. The money multiplier represents the ratio between the total money supply and the monetary base. Historically, as central banks began financing public debt, government securities became widely accepted as backing for currency. Note that reserve money includes both bank reserves and currency.

20. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Providing emergency liquidity at a penal interest rate is a core tenet of the lender-of-last-resort function. This higher rate serves as a deterrent, encouraging banks to manage their portfolios prudently and seek market-based funding first. It effectively addresses the moral hazard problem by ensuring that central bank support is not viewed as a cheap alternative to sound management.

21. (C) The commercial banks' deposit growth, making credit policy an adjunct to monetary policy.
When a central bank targets a specific rate of monetary expansion, the resulting credit growth in commercial banks is largely determined by their deposit growth. In such a framework, credit policy acts as a secondary component to the overarching monetary policy. The central bank manages the monetary base to ensure that the total expansion of deposits remains within the projected limits.

22. (B) I, II, and III
Central banks manage public debt due to the deep links between fiscal and monetary policies. Government securities are essential for conducting open market operations and provide the necessary backing for note issuance. Furthermore, by being involved in the debt market, the central bank can better influence the term structure of interest rates, facilitating more effective implementation of policy.

23. (D) The risk that depositors lose faith in a bank, causing withdrawals from sound institutions system-wide.
Systemic risk refers to the danger that the failure of one financial institution or a sudden loss of confidence can trigger a wider collapse. In the banking sector, this often manifests when depositors, fearing for their savings, begin withdrawing funds from multiple banks simultaneously. This contagion effect can threaten even healthy institutions and lead to a breakdown of the system.

24. (D) ₹3600 crore
The increase in the total money supply is calculated by multiplying the change in base money by the money multiplier. In this scenario, an increase of ₹2000 crore in base money combined with a multiplier of 1.8 results in a total money supply expansion of ₹3600 crore. This relationship highlights how central bank actions on the monetary base have magnified effects.

25. (B) Keynes (1936) — Established the cornerstone of lender-of-last-resort theory
The concept of the lender-of-last-resort was established long before modern Keynesian

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economics. Francis Baring coined the term in 1797, and Henry Thornton provided the early theoretical foundations in 1802. Walter Bagehot later popularized these ideas in his 1873 work. John Maynard Keynes is primarily associated with fiscal policy and general macroeconomic theory during the 20th century, rather than these origins.

26. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
A central bank can attempt to neutralize the liquidity created by a fiscal deficit by selling government securities to the public. This action withdraws funds from the private sector, which may lead to higher interest rates and a subsequent reduction in private investment. While both facts are related to the crowding out effect, the second statement describes the economic mechanism.

27. (C) 1st December 2022
The Reserve Bank of India introduced the retail version of its Central Bank Digital Currency, known as the Digital Rupee (e₹-R), on 1st December 2022. This pilot project aimed to test the creation, distribution, and retail usage of digital currency in real-time. It followed the launch of the wholesale segment pilot, which had commenced exactly one month earlier.

28. (C) Both Statement I and Statement II are correct.
Strategic management of the maturity profile of government debt helps prevent the bunching of repayments, which could otherwise create sudden liquidity shocks. Furthermore, a well-coordinated market borrowing program allows the monetary authority to better control the money supply. This coordination is essential for preventing short-term inflationary pressures that might arise from uncoordinated fiscal spending or excessive liquidity in markets.

29. (C) The ratio of the total money supply to the base money or high powered money.
The money multiplier is a fundamental economic ratio that measures the maximum amount of commercial bank money that can be created per unit of central bank money. It is defined as the ratio of the total money supply to the base money, also known as high-powered money. This ratio reflects the efficiency of the banking system in expanding credit.

30. (D) Bagehot
Walter Bagehot is credited with formalizing the principles of the lender-of-last-resort in his classic 1873 book. He argued that during a financial panic, the central bank should lend freely to solvent but temporarily illiquid banks. However, to prevent moral hazard and ensure the central bank is the last resort, these loans should be made against good collateral.

31. (C) Clearing Houses in the UK replaced the earlier system traced back to Coffee Houses where cheques were exchanged.
The origins of modern payment and settlement systems can be traced back to the informal exchange of cheques in London coffee houses. This practice eventually evolved into the formal establishment of Clearing Houses in the United Kingdom, which replaced the manual exchange between individual bank clerks. This transition marked a significant step in improving the efficiency and security of financial transactions.

32. (B) Sweden
Sweden was the first country to adopt an explicit price level targeting framework in the early 1930s. Following the collapse of the international gold standard, the Swedish authorities sought a new nominal anchor to stabilize the economy. This policy aimed to maintain a stable domestic price level, providing a clear objective for monetary policy in the absence of a metallic link.

33. (B) Fractional reserve system
A fractional reserve system is a banking and monetary arrangement where the issuing authority or banks are required to hold only a portion of their liabilities as reserves. In the context of currency issuance, this meant the central bank kept a fraction of the value of notes in precious metals. This system allowed for greater flexibility in expanding the money supply.

34. (D) I, II, III, and IV
The Bretton Woods system established a structured international exchange rate regime where the US dollar served as the anchor. Member countries pegged their currencies to the dollar, which was in turn convertible to gold.

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The system allowed for limited fluctuations and required countries to demonstrate a fundamental disequilibrium before proposing a change in their currency's par value.

35. (A) Statutory Liquidity Ratio (SLR)
The Statutory Liquidity Ratio is a monetary tool used by central banks, particularly in developing nations, to ensure a steady demand for government securities. By mandating that commercial banks hold a specific percentage of their assets in these securities, the central bank supports the government's borrowing program. This requirement also ensures banks maintain a pool of liquid assets.

36. (A) The second generation model of currency crises
Second generation models of currency crises focus on the role of self-fulfilling expectations and multiple equilibria. In these models, a crisis can occur even without a significant deterioration in economic fundamentals. If investors collectively believe a peg is unsustainable and initiate a massive capital outflow, the government may eventually validate the investors' initial pessimistic outlook by abandoning the peg.

37. (A) II, I, IV, III
The privilege of issuing bank notes evolved through different stages across nations. The Bank of England began issuing notes in 1694. The First Bank of the United States followed with its authorization in 1791. Later, in 1803, the Banque de France was granted exclusive rights in Paris. Finally, the Banco de Portugal received its monopoly on note issuance much later.

38. (D) I, II, IV, and V
Central banks in developing nations often face pressure to finance high public debt, leading to the use of seigniorage—the creation of money for budgetary gaps. This often results in an inflation tax which contradicts the goal of price stability. Furthermore, attempting to keep interest rates artificially low to manage debt costs leads to financial repression, distorting efficient capital allocation.

39. (D) II, IV, I, III
The international monetary landscape changed significantly throughout the 20th century. The gold standard first collapsed during the First World War. In 1967, the IMF introduced Special Drawing Rights to manage global liquidity. The Bretton Woods system ended in August 1971 when the US suspended gold convertibility. Shortly after, the Smithsonian Agreement of December 1971 attempted to stabilize rates.

40. (D) They are relinquishing clearing functions but retaining settlement to ensure finality.
Modern central banks are increasingly focusing on their role in macroeconomic and liquidity management. As a result, many have moved away from the day-to-day operations of clearing individual cheques or payments, delegating these tasks to private entities. However, they typically retain the crucial settlement function to ensure the finality of transactions and maintain the overall stability of the financial system.

41. (B) I, II, IV, and V
The 1997 Asian crisis was driven by large private sector deficits funded by short-term foreign debt and rigid exchange rate pegs vulnerable to speculation. Central banks exacerbated the risk by implicitly absorbing exchange rate volatility for investors. Consequently, massive capital inflows led to currency appreciation and rising asset prices, creating a bubble that eventually burst when weaknesses were exposed.

42. (C) I, II, and III
Central banks adopt various models for managing payment and settlement systems. In some cases, the central bank handles both regulation and operations. In others, it regulates while private entities manage the actual clearing. A third model involves shared operational responsibilities between the central bank and private participants. Total abdication of oversight to international bodies is not a recognized variant.

43. (C) Targeting the price level path
This specific framework differs from standard inflation targeting by focusing on a long-term price level trajectory. If the central bank fails to meet its target in one period, it must adjust policy in the following period to return to the original price path. This correction ensures that the purchasing power of money remains stable over much longer horizons than annual targets.

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44. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Under the gold standard, the money supply was anchored by physical reserves, providing an automatic adjustment mechanism for currency value. The move to a pure fiat standard and fractional reserve systems removed these constraints, giving central banks more discretion. While this provided flexibility, it also increased risks to price stability as there was no longer a built-in check.

45. (C) P-3, Q-1, R-2, S-4
The 1997 crisis was triggered when Thailand abandoned the baht's peg. The region had previously enjoyed an investment-driven boom with high growth. Specific vulnerabilities included Korea's short-term debt dramatically exceeding its reserves. Underlying these issues was a significant regulatory failure, where financial deregulation took place without the implementation of rigorous supervisory standards to manage the resulting risks and flows.

46. (B) The Monetary Authority of Singapore (MAS) directly performs the note issuance task.
Currency management practices vary, but central banks generally handle issuance. The Bank of England moved to printed notes in the mid-19th century, and the US Federal Reserve was tasked with money issuance in 1913. While the Monetary Authority of Singapore regulates the financial sector, the Board of Commissioners of Currency originally handled note issuance before merging with the MAS.

47. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
During the early years of the Great Depression, several countries attempted to improve their economic situation through competitive currency depreciation. However, the international system was strained as major economies like the UK and the US were forced to abandon the gold standard in the early 1930s. While both statements accurately reflect historical events, the abandonment was a consequence of general instability.

48. (B) P-3, Q-4, R-2, S-1
In the United States, the Federal Reserve regulates clearing while providing processing services alongside the private sector. The UK and Canada utilize a model where the central bank delegates clearing to private entities managed by bankers' associations. Countries like Singapore and Hong Kong do not have authorities operating these systems, while Sweden has delegated processing for over a century.

49. (A) Explicit Targeting: Bank of England | No Explicit Targeting: Pre-ECB Bundesbank
Different central banks adopt varying frameworks for managing inflation. The Bank of England is a well-known example of an institution with an explicit inflation target mandated by the government. In contrast, the German Bundesbank, prior to the establishment of the European Central Bank, achieved price stability without an explicit, publicly announced inflation target, focusing instead on managing monetary aggregates.

50. (C) P-4, Q-1, R-3, S-2
P-4, Q-1, R-3, S-2: A.W. Phillips (P) identified the historical short-run trade-off between the rate of inflation and economic growth (4). Milton Friedman (Q) and Anna Schwartz conducted influential research linking the Great Depression to a significant contraction in the money supply (1). John Maynard Keynes (R) famously suggested price level targeting as a monetary objective (3). Lastly, Joseph Stigler (S) is known for his work on price dispersion and information economics, which relates to the broader study of price stickiness (2).

51. (D) High capital mobility
A successful exchange rate peg requires certain economic conditions to be sustainable. High trade integration with the anchor currency country and a shared susceptibility to similar economic shocks help maintain the peg. Crucially, low capital mobility is often necessary because high capital mobility makes it difficult for a country to defend a fixed rate while maintaining an independent monetary policy.

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52. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Real-Time Gross Settlement systems are essential for handling high-value interbank transactions. Central banks typically operate these systems because they are the ultimate source of liquidity in the financial system. By providing immediate settlement finality, the central bank eliminates the risk that a default during the day could cascade through the system, thereby ensuring the overall payment stability.

53. (C) Money acts as a unit of account for future payments, such as interest and pensions.
Money serves as a standard of deferred payment when it is used to express the value of obligations that are to be settled at a future date. This function is critical for the functioning of credit markets, as it allows for the clear specification of future payments like interest, principal on loans, and pensions in a stable unit.

54. (C) The impossible trinity
The impossible trinity is a classic trilemma in international economics. It states that it is impossible for a country to simultaneously achieve three policy goals: a fixed foreign exchange rate, free capital movement, and an independent monetary policy. A country must choose any two of these goals and sacrifice the third to maintain economic balance in its external accounts.

55. (A) Transmission lag
Monetary policy does not affect the economy instantaneously. There is a period of time, known as the transmission lag, between when the central bank takes a policy action, such as changing interest rates, and when the full impact of that action is felt on economic goals like inflation or output. This lag makes the timing of policy decisions challenging.

56. (A) Utilizing soiled note destruction technology.
To maintain the quality of currency in circulation, central banks have increasingly invested in advanced soiled note destruction technology. This mechanized approach allows for the efficient processing and disposal of old, damaged, or dirty banknotes. By replacing these notes with fresh ones, the central bank ensures the integrity and public acceptance of the physical currency system in the economy.

57. (A) Managing global liquidity due to inadequate arrangements for hard currency borrowing by deficit countries.
The IMF created Special Drawing Rights in 1967 as a supplementary international reserve asset. At the time, there were concerns that the growth of global trade was outstripping the supply of traditional reserve assets like gold and the US dollar. SDRs were intended to provide an additional source of global liquidity and help deficit countries manage their international payments effectively.

58. (A) I and II
Currency management is a complex operational task for central banks involving the entire lifecycle of money. This includes determining the appropriate mix of notes and coins based on public demand and transaction needs. Furthermore, the central bank oversees the design, printing, secure storage, and nationwide distribution of currency. Setting market prices for precious metals is not a core function.

59. (C) Expectations of an unsustainable peg trigger speculative activities, forcing official devaluation.
A currency crisis occurs when market participants believe that a fixed exchange rate is no longer sustainable given the country's economic policies or fundamentals. This belief triggers speculative attacks, where investors rapidly sell the local currency. The resulting massive capital outflow eventually exhausts the central bank's foreign exchange reserves, forcing a sharp devaluation or the abandonment of the peg.

60. (B) The central bank should be legally obliged to finance the government budget.
Successful inflation targeting requires a high degree of central bank independence and sophisticated technical capabilities, such as the ability to forecast inflation accurately. It also requires the use of market-based instruments. Being legally obliged to finance the government's budget is a major hindrance, as it compromises the bank's ability to prioritize its inflation target over fiscal needs.

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61. (C) I and II only
Basel III introduced several key reforms to enhance the resilience of the global banking system. These include a non-risk-based leverage ratio to serve as a backstop to capital requirements and the implementation of new buffers, such as the capital conservation and countercyclical buffers. It did not replace Pillar 2 but rather strengthened the entire three-pillar framework established in earlier accords.

62. (A) They removed the leverage ratio requirement, relying solely on the risk-based capital measure.
One of the primary innovations of the Basel III framework was the introduction of a leverage ratio. This ratio was specifically designed to act as a credible backstop to the risk-based capital requirements, preventing banks from becoming excessively leveraged. Therefore, the claim that Basel III removed the leverage ratio requirement is incorrect, as it was a central component.

63. (A) Asset-liability mismatch
An asset-liability mismatch occurs when there is a significant difference between the maturity or liquidity profiles of a bank's assets and its liabilities. Using short-term, demandable deposits to fund long-term, illiquid loans creates a liquidity risk. If many depositors demand their money simultaneously, the bank may be unable to liquidate its long-term assets quickly enough to meet obligations.

64. (C) Output gap
The output gap is a key macroeconomic indicator that measures the difference between an economy's actual level of production and its maximum potential output. Central banks monitor this gap as part of their promotional and stabilization functions. By adjusting interest rates to influence spending, the bank aims to keep the economy growing close to its potential without triggering inflationary pressures.

65. (A) P-3, Q-1, R-2, S-4
The Basel Core Principles provide a comprehensive framework for banking supervision. Principle 15 focuses on the requirement for banks to have a robust risk management process. Principle 16 details the standards for capital adequacy. Principle 17 addresses the management of credit risk, while Principle 24 specifically outlines the supervisory expectations for how banks should manage their liquidity risks.

66. (A) Savings are siphoned from poor to rich regions where returns are high and secure.
Without targeted regulation, market forces in developing economies tend to direct credit toward developed regions and sectors where returns are higher and risks are lower. This natural flow of capital often leads to a situation where savings from poorer, rural areas are siphoned off to finance projects in wealthy urban centers, exacerbating regional inequalities and hindering balanced development.

67. (C) By shifting their emphasis to macro-prudential analysis, away from micro-prudential supervision.
As the financial landscape has become more complex due to universal banking and financial innovations, supervisory approaches have evolved. While individual bank health remains important, there is now a much greater emphasis on macro-prudential analysis. This shift involves monitoring systemic risks and the overall stability of the financial system to prevent widespread crises that could impact the broader economy.

68. (B) Principle 20 — Transactions with related parties
The Basel Core Principles are a set of standards used to evaluate the effectiveness of banking supervision. Principle 20 specifically addresses transactions with related parties, ensuring that banks do not engage in lending or other business activities with connected entities that could compromise their financial health. Other principles cover different areas like market risk, concentration risk, and disclosure.

69. (A) An unexpected and prolonged contraction of asset prices.
Irrational exuberance refers to a period where asset prices rise far beyond their fundamental value, driven by investor optimism. The greatest challenge for policymakers is that these bubbles eventually burst, leading to a sharp and prolonged contraction in asset prices. Managing the timing and scale of policy intervention during this crash is difficult because of the severe systemic impact.

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70. (C) To limit the risk of loss to depositors and maintain public confidence in banks.
Banking supervision is primarily justified by the need to protect the interests of depositors and maintain public trust in the financial system. Because banks operate on a fractional reserve basis and are central to the economy, their failure can have devastating social and economic consequences. Supervision ensures that banks operate safely and hold enough capital to absorb losses.

71. (A) Under the gold standard, the central bank's ability to provide additional currency was completely unconstrained, preventing bank runs.
Under the gold standard, the money supply was strictly limited by the amount of physical gold reserves held by the central bank. This meant that the central bank's ability to provide additional currency during a bank run was severely constrained, not unconstrained. These limitations often made it difficult for the monetary authority to act as an effective lender-of-last-resort during panics.

72. (B) P-4, Q-1, R-2, S-3
Different countries have developed specific frameworks for risk-based supervision. The United Kingdom utilizes the RATE and SCALE approaches. Canada's supervisory body is the Office of the Superintendent of Financial Institutions. Australia uses the Australian Prudential Regulatory Authority. In India, the Reserve Bank evaluated its own RBS framework through multiple rounds of pilot runs involving twenty-three participating commercial banks.

73. (D) I, III, and V
The second group of the revised Basel Core Principles focuses on the prudential requirements for banks. This group includes critical areas such as corporate governance (Principle 14) and the management of problem assets, provisions, and reserves (Principle 18). It also covers specific risks, such as the interest rate risk in the banking book (Principle 23), ensuring banks maintain sound management.

74. (C) Principle 29 - Abuse of financial services
Principle 29 of the Basel Core Principles requires banks to have comprehensive policies and processes in place, including strict know-your-customer rules. These measures are designed to prevent the banking system from being used for criminal activities such as money laundering or the financing of terrorism. Supervisors verify these internal controls to ensure the integrity of the institution.

75. (C) Both Statement I and Statement II are correct.
The relationship between inflation and growth is complex. In the short run, the Phillips Curve suggests a potential trade-off where higher inflation might support growth. However, most economic research indicates that in the medium to long run, this relationship disappears. If inflation exceeds a certain threshold level, it creates uncertainty and distortions that ultimately harm long-term economic growth.

76. (D) Capital, Assets, Management, Earnings, Liquidity, and Interest Rate Sensitivity
The CAMELS system is an international rating method used by regulatory authorities to assess the overall condition of a bank. The acronym stands for Capital adequacy, Asset quality, Management capability, Earnings strength, Liquidity position, and Sensitivity to market risk. This comprehensive evaluation allows supervisors to identify institutions with potential weaknesses that may require closer monitoring or corrective action.

77. (A) I and II only
Maintaining financial stability requires proactive measures. These include developing and adhering to international standards and codes of conduct. Additionally, central banks implement rigorous prudential regulations, such as standardized asset classification and income recognition principles. These measures ensure that the true financial health of banks is accurately reported, allowing for early detection of potential risks to the financial system.

78. (D) Principle 19 - Concentration risk and large exposure limits
Principle 19 of the Basel Core Principles addresses concentration risk. It requires supervisors to ensure that banks have policies to identify and manage large exposures to individual counterparties or groups of related counterparties. By setting strict limits on these exposures, the regulator prevents a single default

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from causing significant damage to a bank's capital base and threatening its solvency.

79. (B) Critics argue that the perception behind supervising banks and mutual funds cannot be identical.
The idea of a single super regulator for all financial services is often debated. Critics argue that the fundamental nature of banks, which take deposits and are central to the payment system, is different from that of mutual funds or insurance companies. Therefore, applying the same supervisory philosophy across all these diverse entities may not be appropriate or effective.

80. (D) I, II, and IV
Principle 26 focuses on the internal governance of a bank. Key requirements include clear lines of authority and the strict separation of duties to prevent fraud or errors. Banks must also maintain independent internal audit and compliance departments. While external audits are vital, Principle 26 specifically emphasizes the internal systems that ensure the bank is managed soundly and legally.

81. (C) I, II, III, and IV
A well-developed financial system consists of several interconnected markets. The money market handles short-term lending, while the bond and capital markets manage long-term debt and equity financing. The foreign exchange market facilitates the trading of different currencies. Together, these markets provide the infrastructure necessary for the efficient flow of funds between savers and borrowers across the economy.

82. (A) The three pillars are minimum capital requirements, supervisory review, and market discipline.
The Basel II framework revolutionized banking supervision by introducing a structure based on three mutually reinforcing pillars. Pillar 1 establishes minimum capital requirements for credit, market, and operational risks. Pillar 2 involves the supervisory review process, allowing regulators to assess bank-specific risks. Pillar 3 focuses on market discipline through enhanced public disclosure requirements, encouraging sound management through transparency.

83. (D) P-2, Q-1, R-4, S-3
The Basel Core Principles are organized into logical sections. Principle 1 sets out the overall responsibilities, objectives, and powers of the supervisory authority. Principle 5 deals with the criteria for licensing new banks. Principle 8 describes the required supervisory approach for ongoing monitoring. Principle 12 focuses on consolidated supervision, ensuring that the entire banking group is monitored globally.

84. (D) Assertion (A) is false, but Reason (R) is true.
While a stable macroeconomic environment is generally desirable, it does not guarantee financial stability. Periods of low inflation and steady growth can lead to irrational exuberance, where market participants become overly optimistic and take on excessive risks. This buildup of vulnerabilities can occur quietly during good times, eventually leading to a financial crisis when the risks finally manifest.

85. (C) Principle 6 - Transfer of significant ownership
Principle 6 gives banking supervisors the authority to review and approve or reject any significant changes in the ownership of a bank. This power is essential to ensure that a bank's owners are fit and proper and that the new ownership structure does not expose the institution to undue risks or compromise its safety and soundness in the future.

86. (C) Assertion (A) is true, but Reason (R) is false.
Supporters of a unified supervisory approach argue that a single agency can achieve significant economies of scale and scope by consolidating resources and expertise. This structure can reduce administrative costs and provide a more holistic view of the financial system. However, the claim that multiple agencies ensure competitive neutrality is often challenged by those who favor a more streamlined environment.

87. (B) P-2, Q-4, R-3, S-1
Mishkin defines financial stability as the efficient allocation of savings to investment opportunities. Dr. Y.V. Reddy describes it as uninterrupted financial transactions and the absence of excessive volatility. Alan Greenspan is famous for highlighting the issue of irrational exuberance in asset prices. John Maynard Keynes is primarily

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associated with the use of fiscal policy for economic recovery and general stability.

88. (C) Both Statement I and Statement II are correct.
Following the 2008 global financial crisis, many countries overhauled their supervisory structures. In the United States, the Dodd-Frank Act created a committee of regulators for better coordination. In the United Kingdom, the responsibility for financial supervision was moved back under the authority of the Bank of England, reflecting a global trend toward integrating prudential supervision more closely with policy.

89. (B) Uninterrupted financial transactions and an absence of volatility that adversely affects the real economy.
Financial stability is best characterized by a system where financial transactions occur without interruption and price volatility remains within levels that do not harm the real economy. In this state, the financial system effectively performs its core functions of allocating resources and managing risks, ensuring that the economy can grow steadily without being disrupted by major financial shocks.

90. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Principle 13 emphasizes the importance of cooperation between home and host country supervisors for banks operating across borders. Effective cross-border supervision requires regular information sharing and coordinated action, especially during times of crisis. While the principle mandates that foreign bank operations meet high standards, the primary focus is on the collaborative relationship between the national authorities.

91. (B) 'Constructive ambiguity' represents the maximum degree of transparency achievable in policy announcements.
Historically, central banks often relied on monetary mystique or constructive ambiguity to keep their exact policy intentions unclear. However, with the modern shift toward transparency and inflation targeting, these practices have been largely abandoned. Constructive ambiguity is actually the opposite of transparency; it is a strategy used to maintain flexibility by not being overly specific in policy communications.

92. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The development of efficient interbank markets can be hindered by various structural factors. In some countries, a small number of large banks create an oligopolistic market that limits competition and liquidity. Additionally, a banking system burdened by bad loans and currency mismatches makes it difficult for a central bank to implement monetary policy effectively, as the transmission channels are weakened.

93. (D) Distorting the markets and sowing the seeds of financial repression.
While micro-allocating credit to preferred sectors may seem beneficial for growth, this dirigiste approach often leads to significant market distortions. It can cause financial repression, where interest rates do not reflect the true cost of capital, leading to inefficient investment and a weakened banking sector. These activities often compromise the central bank's primary mission of maintaining overall monetary and price stability.

94. (C) Europe — All supervisory authorities abolished in favor of pure ECB inflation targeting
After the 2008 crisis, the US and UK both implemented significant changes to their regulatory frameworks to improve coordination and systemic oversight. However, Europe did not abolish its supervisory authorities. Instead, it moved toward a more integrated Banking Union, with the European Central Bank taking on a major role in the direct supervision of significant banks alongside national regulators.

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95. (C) Both Statement I and Statement II are correct.
Central banks have historically played a role in fostering industrial development. The Bank of England was instrumental in creating institutions to provide long-term capital to depressed industries after the world wars. Similarly, the Reserve Bank of India took the lead in establishing specialized development finance institutions like IDBI and NABARD to ensure that critical sectors of the economy had access.

96. (B) I, II, III, and IV
The development of healthy financial markets is often blocked by a combination of factors. These include a high dependence on restrictive regulations, thin markets dominated by a few large players, and a banking system plagued by poor asset quality. Additionally, excessive taxation can discourage financial activity. Conversely, deep and liquid securities markets are a sign of stability, not a hindrance.

97. (D) Reverting to the gold standard to eliminate the need for any public risk assessments.
Modern central bank communication involves complex challenges, such as tailoring messages for different audiences and managing the risk of international spillovers. Banks must communicate clearly to maintain market confidence. However, reverting to the gold standard is not a modern communication challenge; it is an outdated monetary arrangement that would eliminate the policy flexibility modern communication is designed to support.

98. (B) Transparent communication is now integral to policymaking and shaping expectations.
The adoption of inflation targeting has fundamentally changed how central banks communicate. Instead of the secrecy of the past, transparent communication is now seen as a vital tool for managing the public's inflationary expectations. By clearly explaining their goals and the reasoning behind their actions, central banks can make their monetary policy more effective and predictable for all market participants.

99. (D) It is a gradual, decade-long process often starting with the end of repression.
In most developing nations, financial sector reform is not a single event but a gradual, long-term process. It typically begins with ending financial repression—such as lifting interest rate caps and reducing mandatory credit allocations. Over a period of years, these countries move toward more market-oriented systems while simultaneously building the necessary legal and supervisory frameworks to manage liberalization.

100. (D) I and II only
In many developing countries, central banks take an active role in nurturing financial institutions because traditional monetary policy channels are weak. By expanding the formal banking network, they aim to replace informal and usurious credit sources with affordable formal credit. While deposit insurance helps build public confidence, it does not completely eliminate moral hazard; it often creates new risks.

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CHAPTER 03

Contemporary Issues in Central Banking

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May/June 2016

1. Which of the following best defines "financial independence" of a central bank?

(A) The flexibility given to the central bank in the formulation and execution of monetary policy.

(B) The ability of the central bank to independently appoint its Governing Board members without government sanction.

(C) The authorization for the central bank to set its own policy objectives such as full employment and low inflation.

(D) The freedom of the central bank to decide the extent of its direct or indirect financing of government expenditures.

Oct/Nov 2009

2. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): If a central bank lacks credibility in achieving price stability, its future actions to conduct monetary policy may be rendered ineffective.

Reason (R): Economic agents tend to incorporate their elevated inflationary expectations into their financial plans, resulting in the persistence of inflationary pressures.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

3. Why does the requirement to support public debt in countries with poorly developed financial markets create challenges for central banks?

(A) It eliminates the need for transparent appointment procedures for the central bank's Governing Board.

(B) It causes a surplus of international foreign exchange reserves which cannot be absorbed by the local economy.

(C) It intensifies the pressure on central banks in managing short-term liquidity, thereby compromising their set goals.

(D) It enhances the central bank's operational independence by providing a continuous supply of government securities.

Oct/Nov 2018

4. Transparency in the context of central banking operations is defined as:

(A) The complete alignment of monetary and fiscal policy objectives under a single government department.

(B) The legal obligation of a central bank to fund the government's fiscal deficit transparently.

(C) The reduction of asymmetric information between policymakers and economic agents to decrease uncertainty.

(D) The total elimination of discretionary monetary policy tools.

May/June 2007

5. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): The correlation between central bank independence and low inflation does not definitively reveal the direction of causality.

Reason (R): Central bank independence is often chosen endogenously by countries under specific circumstances related to their legal, political, and economic systems.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

6. Initiatives to strengthen the international financial architecture and increase transparency in operations were first given prominence at which major international summit?
(A) The 1944 Bretton Woods Conference
(B) The 1995 Halifax Summit of the G-7 countries
(C) The 1998 Washington Finance Ministers Meeting
(D) The 2000 IMF March Assembly

May/June 2012

7. In the initial years of their evolution, how were most central banks established before the outbreak of the Second World War?
(A) As sovereign debt management offices under the finance ministry
(B) As private institutions independent of Government control
(C) As supranational regulatory bodies
(D) As government-owned statutory corporations

Oct/Nov 2014

8. The time inconsistency problem arises when a central bank reneges on its pronounced policy through monetary expansion to accommodate wage escalations based on private inflation perceptions. Which of the following represents the most appropriate approach for central banks to overcome this problem?
(A) They should continuously adjust inflation targets based on daily trade union demands.
(B) They should adopt a fixed rule monetary policy to prevent deviations from pronounced targets.
(C) They should subordinate their policy instruments entirely to the fiscal requirements of the government.
(D) They should obscure their inflation targets to prevent market participants from forming accurate expectations.

May/June 2019

9. Consider the following viewpoints regarding central bank accountability and independence:
I. Some researchers argue that there is a significant negative relationship between central bank accountability and independence.
II. Others counter this by stating that the conclusion is subjective to the measure of accountability used and is not universally applicable.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

NODIA

Oct/Nov 2006

10. "Instrument independence" is best defined as a situation where the central bank:
(A) Has the authority to alter the overarching macroeconomic goals mandated by legislation.
(B) Is granted the exclusive right to audit commercial banks' internal instruments.
(C) Is free to choose the specific methods and tools in order to achieve pre-specified goals.
(D) Derives its operational budget directly from the issuance of government bonds.

May/June 2021

11. Match the components of the ELRIC framework (List I) with their corresponding areas of control and governance (List II):
List I: (Framework Components)
P. E
Q. L
R. R
S. C
List II: (Areas of Control)
1. Reporting (Financial)
2. External audit mechanism
3. Control (System of internal control)
4. Legal structure and independence
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-4, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2010

12. Consider the following developments regarding central bank independence:
I. The Bank of England was legally made an independent body.
II. The Bank of Japan gained operational independence.
III. The European Central Bank (ECB) became operational as a supranational bank.
Which of the following is the correct

chronological order of these developments?
(A) I, II, III
(B) II, I, III
(C) III, I, II
(D) II, III, I

May/June 2005

13. Why does a credible track record in maintaining low inflation hold paramount relevance for a central bank in managing monetary policy?
(A) It helps in shaping and adapting public perceptions and expectations towards inflation.
(B) It guarantees that the government will never run a fiscal deficit during its entire term.
(C) It legally prevents trade unions from demanding wage escalations in the private sector.
(D) It completely eliminates the need for any future open market operations by the bank.

Oct/Nov 2022

14. Country X has historically tolerated high inflation. Critics argue that simply imposing an independent central bank with stringent anti-inflationary policies will fail because institutional structure is driven by historical preferences. However, the Reserve Bank of New Zealand's experience contradicts this view. What key lesson regarding inflation control is demonstrated by the New Zealand experience?
(A) A purely discretionary monetary policy without a clear mandate is sufficient to reduce double-digit inflation.
(B) Anti-inflationary policies are doomed to fail unless the central bank is subordinated directly to parliament.
(C) Institutional structure combined with a clear mandate and anti-inflationary determination is essential for success.
(D) High degrees of independence inevitably lead to an increase in double-digit inflation due to a lack of oversight.

May/June 2018

15. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Adequate disclosure and transparency by the central bank act as a deterrent to excessive risk-taking and time inconsistency.
Reason (R): Transparency ensures that market participants are aware of the costs and commitments in financial contracts, allowing them to take informed decisions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2016

16. Which of the following statements correctly describes the functional role and relationship of central banks with their respective governments around the Second World War?
(A) Many central banks were made subordinate to governments to facilitate war financing.
(B) Banks in Germany, France, England, and Japan were granted absolute constitutional autonomy.
(C) Central banks were insulated from political pressure and tasked solely with full employment.
(D) Central banks took over the primary responsibility of fiscal policy from their governments.

May/June 2014

17. Consider the following mechanisms adopted by countries to ensure central bank accountability:
I. Review of the central bank's decisions, budget, and expenditures.
II. Maintaining transparency in operating procedures and the monetary policy-making process.
III. The Governor of the central bank testifying before the congress or parliament.
Which of the statements given above is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2007

18. In the context of policy independence, what does "goal independence" refer to?
(A) A situation where the central bank independently selects its own objectives

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from a broader set of policy goals.
(B) A situation where the central bank is free to choose the instruments to achieve pre-specified targets.
(C) A framework where the central bank's budget is determined exclusively by the legislative body.
(D) A regulatory setup where the central bank oversees all fiscal policy targets of the government.

May/June 2025

19. Central bank accountability is best defined as:
(A) The absolute prohibition of the central bank from financing government expenditures.
(B) The exclusive duty of the central bank to audit commercial banks' internal operations.
(C) The automatic adjustment of the central bank's operational budget based on fiscal deficits.
(D) The obligation of the central bank to bear responsibility for its monetary policy actions.

Oct/Nov 2019

20. Which of the following statements incorrectly reflects the argument concerning the democratic legitimacy of an independent central bank?
(A) An independent central bank operates in a vacuum and is completely unanswerable to the legislature.
(B) Critics argue that it lacks democratic legitimacy because unelected officials make crucial decisions about interest rates and exchange rates.
(C) Independence does not means an absence of communication and coordination between the central bank and the government.
(D) The central bank may prefer a regular process of communication with the government to ensure the success of its own policies.

May/June 2009

21. Consider the following areas covered under the ELRIC acronym as part of the International Monetary Fund (IMF) framework for transparency:
I. External audit mechanism
II. Legal structure and independence
III. Financial reporting
IV. System of internal control
Which of the following combinations is correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2011

22. Consider the following statements regarding personnel independence of a central bank:
I. It involves the absence of government interference in the appointment of senior officials.
II. It includes pre-specified and transparent procedures for the dismissal of top central bank officials.
III. It guarantees that the central bank chairman is elected directly by the public.
Which of the statements given above is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2010

23. Several studies have evaluated the economic implications of central bank independence by correlating quantitative measures of independence with specific macroeconomic variables. Which of the following is NOT one of the variables typically used in these studies?
(A) Average inflation
(B) Inflation variability
(C) Real economic performance
(D) Demographic growth rate

Oct/Nov 2024

24. Under the framework governing its central bank, a country requires that if the inflation target is missed by more than one percentage point in either direction, the Governor must write an open letter to the finance minister explaining the causes, the proposed policy measures, and the expected timeframe to return to the target level. This arrangement most accurately mirrors the provisions of:
(A) The Federal Reserve Act
(B) The Bank of Japan Act
(C) The European Central Bank Charter
(D) The Bank of England Act

NODIA

May/June 2017

25. The monetary authority of a developing nation formally announces a strict commitment to low inflation. However, facing a sudden wave of nationwide strikes by trade unions demanding higher wages, the monetary authority expands the money supply to accommodate these wage hikes, contrary to its earlier promise. The public subsequently loses faith in the monetary authority's future inflation targets. This scenario is a classic illustration of:
(A) The crowding-out effect
(B) The time or dynamic inconsistency problem
(C) The automatic monetization of deficit
(D) The liquidity trap

Oct/Nov 2005

26. A national government faces a crucial election next year. To boost immediate economic activity, the political leadership pressures the central bank to drastically cut interest rates, disregarding the potential for severe inflation three years down the line. To prevent such scenarios, central banks are often granted independence. Which economic rationale best supports this structural separation?
(A) Governments often lack the specialized technical and operational infrastructure required to print currency notes securely.
(B) Elected officials are legally barred from understanding complex macroeconomic variables according to the constitution.
(C) Central banks require high interest rates to maximize their annual profitability and dividend payouts to the treasury.
(D) Political systems often act myopically, prioritizing short-term economic gains while neglecting long-term inflationary costs.

May/June 2020

27. In a democratic society, the central bank has been granted independent status to fulfill its mandate of price stability. It acts as an agent in a 'principal-agent relationship' with society at large. Consequently, the central bank provides detailed discussions of its decisions and operations to the public. In this framework, transparency functions as:
(A) A secondary objective supporting the primary mandate of maintaining the bank's monetary policy accountability.
(B) The primary and only objective of the central bank, superseding monetary policy.
(C) An irrelevant factor as long as operational independence is legally guaranteed.
(D) A constraint that fundamentally weakens the central bank's independence.

Oct/Nov 2015

28. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The ownership of a central bank does not heavily impact its manner of operation or decision-making process.
Reason (R): As long as the central bank has operational independence, it can function effectively irrespective of its ownership structure.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

29. Consider the following parameters regarding measures of central bank accountability:
I. Parliamentary monitoring
II. Release of minutes of Monetary Policy Committee meetings
III. Publication of monetary policy reports
IV. Existence of an override mechanism
Which of the following combinations represents the parameters included in accountability indices for industrialized countries?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2021

30. Consider the following statements regarding the potential conflicts between an independent central bank and the government:
I. Conflicting policies between the central bank and the government may lead to economy-wide problems in the short term.
II. Over the long term, stable financial conditions achieved by the central bank

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ultimately lead to higher economic growth rates and increased welfare.

Which of the statements given above is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2024

31. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): While central banks strive to improve communication, a flood of data can sometimes veil the crucial information necessary for policy formulation.

Reason (R): Central banks ensure a certain degree of ambiguity persists to contain possible expectations that may distort the realization of their set policy objectives.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

32. In operationalizing monetary-fiscal coordination, consider the following measures through which governments have increasingly disciplined themselves in recent years:

I. Enacting fiscal responsibility legislations.
II. Placing restrictions on central bank accommodation.
III. Setting borrowing limits or ceilings.

Which of the statements given above is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2006

33. Match the Subject Area (List I) with its corresponding Key Standard (List II) as per the international standards and codes:

List I: (Subject Area)

P. Monetary and Financial Policy Transparency
Q. Data Dissemination
R. Corporate Governance
S. Payment and Settlement

List II: (Key Standard)

1. Special Data Dissemination Standard / General Data Dissemination Standard
2. Core Principles for Systemically Important Payment Systems (SIPS)
3. Principles of Corporate Governance
4. Code of Good Practices on Transparency in Monetary and Financial Policies

(A) P-2, Q-3, R-1, S-4
(B) P-4, Q-1, R-3, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-2, R-4, S-3

Oct/Nov 2017

34. As part of managing public debt, central banks hold stocks of government securities. Apart from serving as an instrument for monetary control through open market operations, what fundamental role do these government securities play for the central bank?

(A) They are used to pay dividends directly to foreign shareholders.
(B) They act as the primary collateral for commercial retail loans.
(C) They replace gold reserves entirely in the central bank's balance sheet.
(D) They serve as a backing for the issuance of currency.

May/June 2008

35. In a modern economy, the central bank decides to lower the rate of interest to combat an economic slowdown. According to the Keynesian vision of the economic system, how does this action theoretically influence real economic activity?

(A) It alters firm incentives for long-term investments, directly affecting real economic activity.
(B) It renders money completely neutral, having no effect on the real sectors of the economy.
(C) It immediately triggers hyperinflation by breaking the fixed exchange rate system.
(D) It forces the government to reduce developmental expenditure to match the lower interest rates.

Oct/Nov 2013

36. The central bank implements the market borrowing programme of the government.

NODIA

Which of the following is an authorized participant in the Market Borrowing Programme (MBP)?
(A) Primary Dealers
(B) International Monetary Fund (IMF)
(C) The World Bank
(D) Rating Agencies

May/June 2015

37. The Mexican crisis of 1994 highlighted severe economic vulnerabilities resulting from a lack of clarity regarding the country's macroeconomic policies and its reactions to economic events. The international community realized that such crises could be mitigated by addressing:
(A) The asymmetric information regarding economy policies via international standards.
(B) The total independence of central banks from volatile global financial markets.
(C) The excessive transparency of the domestic banking sector and private lenders.
(D) The lack of manual computer networking systems in emerging market economies.

Oct/Nov 2012

38. Consider the following views regarding the Conduct of Monetary Policy:
I. Anticipated policy measures could have real effects if the market clearing assumption is relaxed.
II. Fiscal policy is not sufficiently agile to be effective in a stabilization role due to exogenous political considerations.
III. The role of macroeconomic stabilization was largely left to the central bank.
IV. Fiscal policy represents merely another demand shock to be countered by monetary policy.
Which of the following combinations is correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2011

39. The financing of deficits by the central bank may eventually lead to a "debt trap." What is the defining characteristic of this debt trap?
(A) The government is forced to privatize all public sector undertakings to clear its debt.
(B) The central bank is forced to default on its currency obligations.
(C) The foreign institutional investors acquire a majority stake in the domestic sovereign debt market.
(D) The government borrows annually just to repay principal and interest on accumulated debt.

Oct/Nov 2020

40. Which of the following represents the most appropriate combination of best practices that enhance transparency for achieving greater accountability?
(A) Withholding of inflation forecasts, publishing only historical data, and closed-door Monetary Policy Committee meetings.
(B) Outsourcing the monetary policy transmission mechanism to private rating agencies and minimizing public communication.
(C) Aligning central bank objectives strictly with the ruling political party's election manifesto and issuing daily media briefings.
(D) Publishing official reports, key variable forecasts with risks, and explanations for central bank decisions.

May/June 2022

41. During a government securities auction, the market participants (banks, institutions, individuals) are unable to absorb the entire offered amount at the announced rates. The central bank then mandates specific registered entities to invest in this unabsorbed portion to ensure the government's target is met. This process of absorption is technically termed as:
(A) Open Market Purchase
(B) Devolvement
(C) Direct Monetization
(D) Liquidity Adjustment

Oct/Nov 2023

42. Which of the following pairs of Subject Area and its corresponding Institution is correctly matched according to the Key International Standards and Codes?
(A) Insolvency - IMF
(B) Fiscal Policy Transparency - World Bank
(C) Insurance Supervision - IAIS
(D) Payment and Settlement - OECD

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May/June 2016

43. In response to the stoking of inflationary pressures and stagflation, policy priorities were realigned. Which of the following correctly reflects this realignment?

(A) Central banks were bestowed with the exclusive responsibility of enhancing economic growth, while governments were mandated to ensure monetary stability.

(B) Governments were bestowed with the responsibility of enhancing economic growth, while central banks were mandated to ensure monetary stability.

(C) Primacy was accorded to an accommodative monetary policy over the objective of price stability.

(D) Both governments and central banks were stripped of stabilization objectives in favor of private sector regulation.

Oct/Nov 2009

44. Consider the following macroeconomic paradigms and historical developments regarding monetary-fiscal policy:

I. New-classical economists emphasizing rational expectations and rule-based policy.

II. The Keynesian tenet advocating expansionary fiscal policy to resolve aggregate demand deficiency.

III. The phenomenon of 'stagflation' calling Keynesian tenets into question.

IV. Application of game theory highlighting non-cooperative behavior and the need for monetary-fiscal coordination.

Which of the following is the correct chronological order in which these paradigms gained prominence?

(A) II, III, I, IV

(B) I, II, III, IV

(C) II, I, III, IV

(D) III, II, IV, I

May/June 2023

45. A depletion of funds in the market due to heavy government borrowing leads to an increase in the demand for funds, pushing up prevailing interest rates. For a commercial bank holding a substantial portfolio of older government securities, how does this rise in interest rates impact its balance sheet and operations?

(A) It increases the prices of the government securities and reduces the cost of investment.

(B) It has no effect on the value of the portfolio but forces the bank to lower loan rates.

(C) It reduces security prices, lowering portfolio value, and pushes up loan rates.

(D) It increases the value of the portfolio and eliminates expectations of further price rises.

Oct/Nov 2018

46. The Task Force on Implementation of Standards favored 12 key standards to be implemented with flexibility. Which of the following statements about this Task Force is NOT correct?

(A) It was constituted by the Financial Stability Forum (FSF).

(B) The Reserve Bank of India was not represented on this Task Force.

(C) It was chaired by Mr. Andrew Sheng.

(D) Its report was first placed before the G-20 and later adopted by the IMFC in April 2000.

May/June 2007

47. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): It is very difficult to definitively assess whether the crowding-out of private investment by government borrowing will have a net adverse impact on economic growth.

Reason (R): Government funds may be deployed in long-term infrastructure projects where the fruits of such investments and their productivity can only be realized and adjudged in the long-run.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

48. The credibility of a central bank is described as an intangible asset. What is the primary benefit of this intangible asset in the context of monetary policy?

(A) It allows the central bank to physically increase its gold and foreign currency reserves.

NODIA

(B) It allows policy goals to be achieved through public announcements without specific instruments.
(C) It provides the legal authority to bypass legislative oversight in setting benchmark interest rates.
(D) It enables the central bank to directly collect taxes from the public to offset various fiscal deficits.

May/June 2012

49. A central bank in an emerging economy continuously tracks the fiscal deficit of the national government. The governor emphasizes that the mode of financing this deficit is critical because it directly influences two key macroeconomic variables that the central bank is mandated to stabilize. Which two variables are primarily affected by the size of the deficit and its mode of financing?
(A) Interest rates and prices
(B) Export quotas and import tariffs
(C) Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR)
(D) Corporate taxation rates and subsidies

Oct/Nov 2014

50. Consider the following statements regarding the new-classical economists of the 1970s:
I. They assumed rational expectations of market participants and a market-clearing approach without rigidity.
II. They argued that anticipated policy measures have a permanent, long-term real impact on the economy.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2019

51. Match the Participants in the Market Borrowing Programme (MBP) (List I) with their specific role or characteristic (List II):
List I: (Participants)
P. Primary Dealers
Q. Central Bank
R. Government
S. Commercial Banks
List II: (Roles/Characteristics)
1. Implements the market borrowing programme as manager of public debt.
2. Act as underwriters for the devolved portion of government securities.
3. Announces the targeted level of borrowing at the beginning of the year.
4. Absorb funds from the market, often facing constraints in lending operations.
(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2006

52. Which of the following abbreviations related to international standards and codes is incorrectly paired with its full form?
(A) IASB - The International Accounting Standards Board
(B) IFAC - International Federation of Accountants
(C) BCBS - Basle Committee on Banking Supervision
(D) IOSCO - International Office of Securities Commissions

May/June 2021

53. Over a period of time, the privileged position of the central bank resulted in a specific relationship with the government. Which statement correctly identifies this outcome?
(A) The government became the principal creditor to the central bank, holding majority deposits.
(B) The central bank relinquished its monopoly on note issuance to private commercial banks.
(C) The government became the principal debtor, relying heavily on central bank advances.
(D) The central bank was legally prohibited from lending to the government under any circumstance.

Oct/Nov 2010

54. To finance its rising deficit, a government decides to aggressively issue and sell treasury bills in the domestic financial market. Critics of this policy argue that this will absorb funds that would have otherwise been available for the private corporate sector. Consequently, private

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investment drops. This specific economic phenomenon is known as:
(A) Monetization of debt
(B) Automatic stabilization
(C) The crowding-out effect
(D) Financial repression

May/June 2005

55. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Since the mid-1980s, greater monetary-fiscal coordination has been emphasized to achieve growth along with price stability.
Reason (R): Application of game theory demonstrated that non-cooperative behavior between the fiscal and monetary arms of economic policy resulted in sub-optimal outcomes and losses in social welfare.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

56. Match the Key Standards (List I) with the Institution responsible for them (List II):
List I: (Key Standards)
P. International Accounting Standards
Q. International Standards on Auditing
R. Core Principles for Effective Banking Supervision
S. Forty Recommendations on Money Laundering
List II: (Institutions)
1. IFAC
2. BCBS
3. FATF-OECD
4. IASB
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-3, R-4, S-1

May/June 2018

57. When a government aggressively borrows from the domestic market, it absorbs a large chunk of liquidity. Commercial banks and financial institutions end up utilizing a major portion of their funds to purchase these government securities. As a direct consequence on the banking sector's operations, what is most likely to happen?
(A) Banks will be constrained in conducting their lending operations to the private sector.
(B) Banks will experience an unlimited capacity to extend private retail and corporate loans.
(C) Banks will automatically reduce their deposit interest rates to zero.
(D) Banks will surrender their banking licenses to the central bank.

Oct/Nov 2016

58. Unlike contemporary central banks, what was the primary purpose for which the early central banks, such as those in Sweden and England, were originally set up?
(A) To support the governments in financing their budgetary gaps.
(B) To strictly control inflation through inflation targeting regimes.
(C) To act as a supervisory body for commercial banks.
(D) To manage the foreign exchange reserves of the country.

May/June 2014

59. In Emerging Market Economies (EMEs), the financing of Public Debt predominantly relies on domestic financing. Which of the following is NOT a reason why the option of foreign financing of public debt is very limited in EMEs?
(A) Government papers issued by EMEs are not much traded in international markets.
(B) The rating of EME government papers in international markets is generally low.
(C) EMEs often possess foreign exchange reserves that make foreign borrowing unnecessary.
(D) Investors in international markets perceive higher risks associated with EME debt instruments.

Oct/Nov 2007

60. Which of the following statements concerning the events of the early 1970s and the phenomenon of 'stagflation' is incorrect?
(A) It involved the breakdown of the fixed

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exchange rate system and the first OPEC oil shock.
(B) It validated the short-run trade-off where lower unemployment is achieved via higher inflation.
(C) It led to a simultaneous acceleration in inflation and high unemployment in the USA.
(D) Subsequent analysis of these events showed that there is essentially no long-run trade-off between inflation and unemployment.

May/June 2025

61. On March 6, 1997, the Second Supplemental Agreement was signed, leading to a monumental shift in how the Government of India met its short-term financing needs. The ad hoc Treasury Bills were completely phased out. What new system was introduced commencing April 1, 1997, to replace them?
(A) The Market Stabilization Scheme (MSS)
(B) The Liquidity Adjustment Facility (LAF)
(C) The Ways and Means Advances (WMA) system
(D) The automatic monetization of Fiscal Deficits

Oct/Nov 2019

62. Which of the following statements is incorrect regarding the relationship between the central bank and a separate debt management entity, if one is created?
(A) The central bank would be strictly prohibited from giving any advice to the debt management entity.
(B) A separate entity would still consult with market participants, including the central bank.
(C) The central bank would be in a unique position to advise on the size and timing of issues.
(D) The central bank's advice is valuable because it constantly keeps track of the liquidity conditions in the economy.

May/June 2009

63. Which of the following statements regarding the origin and early use of ad hoc Treasury Bills in India is incorrect?
(A) They were created as a permanent, non-inflationary instrument for infrastructure projects.
(B) Their origin dates back to World War II.
(C) Their initially issued mainly in connection with the temporary financing of sterling debt repatriation.
(D) They were also created in 1948-49 to replace sterling securities transferred to the U.K. Government.

NODIA

Oct/Nov 2011

64. Match the macroeconomic paradigm or era (List I) with its core assertion regarding fiscal/monetary policy (List II):
List I: (Paradigm/Era)
P. Classical Economists
Q. Keynesian Tenet (Post WWII)
R. New-Classical (1970s)
S. Game Theory (1980s)
List II: (Core Assertion)
1. Non-cooperative behavior between fiscal and monetary arms results in sub-optimal social welfare.
2. Anticipated policy measures do not matter; stabilization policy should not be discretionary.
3. Money is just a veil.
4. Spending decisions move largely independent of asset rates of return; deficiency of aggregate demand can be resolved by expansionary fiscal policy.
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-2, R-3, S-4

May/June 2010

65. During an economic down-turn, an EME government engages in large, unproductive public expenditure requiring massive borrowing. To keep the interest servicing costs low, the central bank injects huge liquidity into the system. What is the most likely medium-to-long-term consequence of this strategy on the domestic economy?
(A) An eventual increase in prices as too much money chases too few goods.
(B) A sustained period of deflation due to increased productivity.
(C) A rapid appreciation of the domestic currency in international forex markets.
(D) An immediate achievement of the central bank's price stability objective.

Oct/Nov 2024

66. Which of the following pairs of countries and the establishment of separate sovereign debt management units is incorrectly matched?

(A) Japan - Established a separate sovereign debt management unit.

(B) Ireland - Established a separate sovereign debt management unit.

(C) Sweden - Established a separate sovereign debt management unit.

(D) Australia - Established a separate sovereign debt management unit.

May/June 2017

67. Which statement correctly distinguishes the history of direct monetization and private placements of government securities with the central bank in India?

(A) Private placements existed since the mid-fifties, while direct monetization came into existence only after 1997.

(B) Both direct monetization and private placements were completely prohibited in India since 1950.

(C) Direct monetization lasted from the mid-fifties to 1997, while private placements emerged in the late 1990s.

(D) Direct monetization refers to open market operations, while private placements refer to foreign borrowing.

Oct/Nov 2005

68. During 1960-66, the Reserve Bank of India initiated measures to restrict monetary expansion, including raising its Bank Rate. However, simultaneously, the Reserve Bank became a net purchaser of Government securities through Open Market Operations (OMOs) to stabilize market conditions. What was the net effect of these OMOs on the RBI's monetary policy stance?

(A) It perfectly complemented the restrictive monetary policy by absorbing excess liquidity.

(B) It threatened to undermine monetary policy by infusing liquidity into the system.

(C) It led to a complete cessation of commercial bank lending.

(D) It resulted in a massive surplus in the government's budget.

May/June 2020

69. Match the specific type of central bank independence (List I) with its correct description (List II):

List I: (Type of Independence)

P. Personnel Independence

Q. Financial Independence

R. Goal Independence

S. Instrument Independence

List II: (Description)

1. The freedom to choose specific tools to achieve pre-specified targets.
2. The absence of government interference in the appointment and dismissal of senior officials.
3. The freedom to decide the extent to which government expenditure is financed via central bank credits.
4. The ability to set own objectives from a broader set of policy objectives.

(A) P-2, Q-3, R-4, S-1

(B) P-3, Q-2, R-1, S-4

(C) P-4, Q-1, R-2, S-3

(D) P-1, Q-4, R-3, S-2

Oct/Nov 2015

70. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): Absorption of government borrowing by central banks through private placements can push up commodity prices in the short run.

Reason (R): Private placements fuel aggregate demand expectations, leading to an increase in the price level.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

71. A central bank sets a strict target for inflation at 4%. However, to accommodate wage negotiations, it secretly expands the monetary base, pushing inflation to 7%. The public subsequently demands even higher wages the next year, anticipating 7% inflation. This

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dynamic fundamentally damages the central bank's operational effectiveness. The root cause of this loss of effectiveness is the erosion of:
(A) Policy Credibility
(B) Goal Independence
(C) Financial Independence
(D) Democratic Legitimacy

Oct/Nov 2021

72. Consider the following statements regarding the operational arrangement for ad hoc Treasury Bills reached in early 1955:
I. It enabled the automatic creation of ad hoc Treasury Bills whenever the Central Government's cash balance fell below a stipulated minimum level.
II. The ad hoc Treasury Bills were automatically cancelled upon the replenishment of the government's cash balances up to the stipulated level.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2024

73. If debt management is separated from monetary management, consider the following strategic decisions that would essentially rest with the government to minimize borrowing costs:
I. The size of the issue.
II. The proportions of the issue in terms of bonds and treasury bills.
III. The timing of the issues.
IV. The maturity patterns of issues.
V. The amount of coupons that may have to be issued in case of government bonds.
Which of the following combinations is correct?
(A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2008

74. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Concerted monetary-fiscal action to accommodate the fiscal need of lowering interest servicing costs will harm overall economic performance in the medium term.
Reason (R): The central bank will lose its ability to influence market expectations and defend the already-positioned medium-term paths of interest rates and prices.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. Which of the following pairs concerning researchers who constructed central bank accountability indices is correctly identified?
(A) Nolan and Schaling - Focused exclusively on the ELRIC framework parameters.
(B) Fry and others - Argued there is a significant negative relationship between accountability and independence.
(C) De Haan - Constructed the 12 key international standards and codes.
(D) Briault, Haldane, and King - Constructed an accountability index for fourteen industrialized countries.

Oct/Nov 2017

76. To render temporary support to government financing needs, a central bank agrees to the private placement of government securities on day one. However, to manage liquidity and pursue its objective of price stability, the central bank plans its future actions carefully. What is the standard approach central banks prefer regarding these privately placed securities?
(A) They prefer to hold them indefinitely until maturity to maximize interest earnings.
(B) They convert them into non-marketable ad hoc treasury bills immediately.
(C) They mandate commercial banks to buy them at a premium regardless of market conditions.
(D) They offload them in the market as liquidity conditions improve in the foreseeable future.

May/June 2008

77. Match the supervisory bodies (List I) with the sector they provide core principles for (List II):

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List I: (Supervisory Bodies)
P. BCBS
Q. IAIS
R. CPSS-BIS
S. FATF-OECD
List II: (Sector)
1. Payment and Settlement Systems
2. Market Integrity (Money Laundering)
3. Banking Supervision
4. Insurance Supervision
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2013

78. Consider the following statements regarding the Ways and Means Advances (WMA) system introduced in 1997:
I. Under the WMA system, the Reserve Bank extends short-term advances up to pre-announced half-yearly limits.
II. The advances are fully payable within three months.
III. The Government of India is allowed to incur overdrafts at an interest rate higher than that of the WMA.
IV. Effective April 1, 1999, the overdraft has been restricted to a maximum of 10 working days.
V. The Reserve Bank triggers fresh floatation of Government securities whenever 50 per cent of the WMA limit is reached.
Which of the statements given above are correct?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2015

79. In the late 1980s, a country established a separate government office to manage government debt, successfully ensuring that its Reserve Bank retained autonomy in monetary policy making. This country's experience is frequently cited as a model for separating debt management. Which country is this?
(A) United States
(B) New Zealand
(C) Germany
(D) Japan

Oct/Nov 2012

80. Faced with inflationary pressures in 1960 and an aversion from the government towards higher interest rates, how did the Reserve Bank of India tighten its monetary policy?
(A) By directly raising the Bank Rate by 200 basis points.
(B) By completely halting the issuance of new currency notes.
(C) By freezing all government expenditure accounts.
(D) By imposing an incremental Cash Reserve Ratio (CRR).

May/June 2011

81. Currently, central banks have become more open, disclosing the rationale behind their policies. They publish annual reports, inflation reports, and minutes of monetary policy committee meetings. What is the most encompassing reason for these practices?
(A) To strictly comply with the penal provisions of the International Monetary Fund.
(B) To provide commercial banks with guaranteed profit margins on government securities.
(C) To maintain accountability while autonomous in price stability and growth goals.
(D) To shift the blame of inflation entirely onto the fiscal policies of the government.

Oct/Nov 2020

82. The First Supplemental Agreement between the Reserve Bank and the Government of India on September 9, 1994, set limits for the creation of ad hocs. Consider the following conditions agreed upon for the year 1994-95:
I. The net issue of ad hoc Treasury Bills would not exceed ₹6,000 crore at the end of the year.
II. The net issue would not exceed ₹9,000 crore for more than 10 continuous working days during the year.
III. If the limit was exceeded, the Reserve Bank would automatically reduce the excess by auctioning Treasury Bills or dated securities.
IV. The agreement completely banned any issuance of ad hoc Treasury Bills from the very next day.
Which of the following combinations is correct?
(A) I, II, and III only

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(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

May/June 2022

83. In many Emerging Market Economies (EMEs), banks may not be prepared to hold government securities far in excess of statutory liquidity requirements. Which of the following is NOT a reason for this reluctance?
(A) The secondary market for government securities is not well developed.
(B) The secondary market is not sufficiently large and deep enough.
(C) The return on lending to other sectors may be higher than the return on investing in government securities.
(D) Banks are legally prohibited from holding any government securities beyond the statutory limit.

Oct/Nov 2023

84. Match the international institutions (List I) with the key standards they promulgate (List II):
List I: (Institutions)
P. OECD
Q. World Bank
R. IMF
S. IASB
List II: (Key Standards)
1. Special Data Dissemination Standard
2. International Accounting Standards
3. Principles of Corporate Governance
4. Principles and Guidelines on Effective Insolvency and Creditor Rights System
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-3, R-4, S-1

May/June 2016

85. A proposal has been mooted in recent years for assigning the debt management function to a separate entity. Which of the following best describes the theoretical underpinning of this proposal?
(A) The government would be legally forced to run zero fiscal deficits permanently.
(B) The separate entity would be granted the authority to print currency to pay off foreign debt.
(C) The central bank would focus on price stability without being diverted by debt management or borrowing cost issues.
(D) Commercial banks would be relieved of all statutory liquidity requirements.

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Oct/Nov 2009

86. Consider the following statements regarding the operational arrangement for ad hoc Treasury Bills reached in early 1955:
I. It enabled the automatic creation of ad hoc Treasury Bills whenever the Central Government's cash balance fell below a stipulated minimum level.
II. The ad hoc Treasury Bills were automatically cancelled upon the replenishment of the government's cash balances up to the stipulated level.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2023

87. Match the actions or roles in the government securities market (List I) with the correct entity or concept (List II):
List I: (Actions/Roles)
P. Acting as underwriters for the devolved portion of government securities
Q. Funding in general
R. Implementing the market borrowing programme
S. Formulating fiscal policy
List II: (Entity/Concept)
1. Government
2. Central Bank
3. Consolidation of public debt by issuing long dated securities in place of floating debt
4. Primary Dealers
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2018

88. To minimize the adverse inflationary implications of private placements, a central bank decides to offload these privately placed securities to the credit markets as quickly as possible. To facilitate this offloading, the central

bank injects liquidity into the market through liberal refinancing at competitive interest rates. What is a potential risk associated with expecting to offload privately placed securities at a later date?

(A) The securities will automatically be downgraded by international rating agencies.
(B) Banks could refuse to absorb government securities in periods of economic buoyancy if expected yield rates are unattractive.
(C) The government will immediately recall the securities, cancelling the debt.
(D) The central bank will be forced to increase the Cash Reserve Ratio to 100%.

May/June 2007

89. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): There is a significant reason that calls for the separation of debt management from monetary management due to potential conflict of interest.

Reason (R): If both functions are located in a single body, it is likely that monetary policy may be so managed as to primarily benefit debt management operations, akin to an insider information problem.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

90. In which year did the Reserve Bank of India first raise formal concerns over its accommodation of the government through ad hoc treasury bills, noting that it was becoming a merely mechanical process?

(A) 1957
(B) 1947
(C) 1969
(D) 1991

May/June 2012

91. Critics contend that accessing financial markets to finance government deficits is beset with the problem of crowding out private investment. Consider the following sequential logic:

I. Funds available in the financial markets are transferred to the government for financing the deficit.
II. Consequently, the funds available for private investment reduce.
III. The reduction in private investment adversely affects the economic growth process.
IV. It is very difficult to measure the productivity of funds deployed by the government as they may be deployed in long-run infrastructure projects.
V. The ramifications of such government investments could only be realized in the long-run and adjudged on cost-benefit analysis.

Which of the statements given above correctly reflect the logic of crowding out and productivity?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, II, III, IV, and V
(D) I, II, IV, and V only

Oct/Nov 2014

92. The recent revival of interest in the independence of central banks can be attributed to several global factors. Consider the following potential factors:

I. Reforms in centrally planned economies.
II. The establishment of the new European Central Bank (ECB).
III. The importance of price stability in a world characterized by substantial cross-border financial flows.

Which of the statements given above is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2019

93. Over the years, countries have adopted certain mechanisms to ensure the accountability of the central bank. Which of the following is NOT generally recognized as one of these mechanisms?

(A) A review of the central bank's decisions, budget, and expenditures.
(B) Maintaining transparency in operating

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procedures.
(C) The Governor testifying before the congress or parliament.
(D) Revoking the charter if output growth falls below a pre-specified threshold.

Oct/Nov 2006

94. The Government of India reaches 75% of its pre-announced WMA limit. Simultaneously, it holds surplus cash balances with the Reserve Bank beyond an agreed level. According to the operational arrangements, what actions are triggered by these two distinct situations?
(A) The RBI halts all government spending; surplus balances are distributed to commercial banks.
(B) The RBI cancels the WMA facility entirely; surplus balances are converted into foreign exchange.
(C) The RBI triggers fresh security floatation; surplus cash balances are invested in RBI paper.
(D) The government is forced to borrow from the World Bank; surplus balances are frozen.

May/June 2021

95. The Task Force on Implementation of Standards identified twelve key standards. Consider the following subject areas:
I. Data Dissemination
II. Insolvency
III. Corporate Governance
IV. Accounting
V. Auditing
Which of the statements given above represent areas explicitly included in this list of twelve key standards?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2010

96. Consider the following statements regarding the historical emergence of the view on central bank independence:
I. The view that central banks should be independent of political power emerged primarily in the twentieth century.
II. In light of severe deficit financing during the First World War, conferences organized by the League of Nations recognized central bank independence as contributing to price stability.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

97. Which of the following statements regarding the 1995 Halifax Summit of the G-7 countries and subsequent developments is incorrect?
(A) The summit concluded that central banks must avoid transparency to manage global financial crises effectively.
(B) Initiatives were given prominence at this summit to strengthen the international financial architecture.
(C) These efforts received a greater thrust in the aftermath of the East Asian crisis.
(D) In April 1998, working groups were set up in three areas including enhancing transparency and accountability.

Oct/Nov 2022

98. Regarding the transition from automatic monetization to the Ways and Means Advances (WMA) system, consider the following statements:
I. The WMA system commenced on April 1, 1997.
II. To smoothen the transition, the proportion of auction 91-day Treasury Bills was increased.
III. WMA represents short-term advances only up to pre-announced half-yearly limits.
IV. Advances under WMA are fully payable within three months.
V. Investment of Central Government's surplus cash balances in dated securities was never permitted.
Which of the following combinations of statements is correct?
(A) I, II, III, and IV only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

NODIA

May/June 2018

99. To achieve greater accountability, three types of best practices that enhance transparency have been spelt out. Consider the following:

I. Publication of official reports that analyze economic conditions.
II. Publication of forecasts of key variables like inflation and output.
III. Explaining the reasons for central bank decisions and various contingencies under consideration.
IV. Suppressing the publication of central forecasts to prevent market speculation.

Which of the following combinations represents these best practices?

(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, and IV only

Oct/Nov 2016

100. A developing nation considers whether to establish a separate debt management office or keep the function within the central bank. If it keeps both functions within the central bank, a critical operational risk arises where monetary policy might be artificially kept accommodative merely to lower the government's borrowing costs. In academic literature, this specific conflict of interest, where one internal function unfairly benefits another, is most closely likened to:

(A) A liquidity trap
(B) The paradox of thrift
(C) Automatic monetization
(D) An insider information problem

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ANSWERS

1. (D) The freedom of the central bank to decide the extent of its direct or indirect financing of government expenditures.
Financial independence relates to the central bank's autonomy in managing its balance sheet and credit exposure to the state. This specific form of independence ensures that the institution is not legally or practically coerced into funding the government's fiscal requirements. Such freedom is essential for maintaining control over the monetary base and mitigating long-term inflationary pressures across the economy.

2. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Credibility is a fundamental pillar for the effectiveness of monetary policy in any economy. When a central bank maintains a strong reputation for price stability, economic agents align their behavior accordingly. Conversely, a lack of credibility leads to high inflationary expectations being baked into financial planning, which perpetuates inflation regardless of the specific policy actions taken by the bank.

3. (C) It intensifies the pressure on central banks in managing short-term liquidity, thereby compromising their set goals.
In countries where financial markets are not sufficiently developed, the central bank often carries the burden of supporting public debt issuance. This requirement forces the bank to prioritize government financing needs, which significantly complicates the management of short-term liquidity. Such dual responsibilities can compromise the bank's primary objectives, such as maintaining price stability and managing inflation expectations in the market.

4. (C) The reduction of asymmetric information between policymakers and economic agents to decrease uncertainty.
Transparency in central banking is defined by the efforts to minimize the gap in information between policymakers and the public. By clearly communicating goals, data, and decision-making processes, the central bank reduces market uncertainty and allows economic agents to make informed choices. This openness enhances the effectiveness of monetary policy and builds public trust in the institution's commitment to stability.

5. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
While empirical evidence often shows a strong correlation between central bank independence and lower inflation rates, establishing a direct causal link remains complex. Independence is frequently an endogenous choice made by a nation based on its unique legal, political, and institutional environment. This suggests that underlying societal preferences for stability drive both the institutional structure and the resulting inflationary outcomes observed.

6. (B) The 1995 Halifax Summit of the G-7 countries
The drive to strengthen international financial architecture and improve operational transparency gained significant momentum at the 1995 Halifax Summit. During this meeting, G-7 leaders recognized that clear communication and robust standards were essential for preventing global financial crises. These initiatives laid the groundwork for the modern framework of international codes and standards that central banks and governments follow today.

7. (B) As private institutions independent of Government control
In their early stages of development prior to the Second World War, most central banks functioned as private entities. These institutions were largely independent of direct government control and were primarily established to provide stability to the banking system. It was only later in the twentieth century that they transitioned into state-owned organizations with broader mandates for national economic management.

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8. (B) They should adopt a fixed rule monetary policy to prevent deviations from pronounced targets.
Central banks can effectively address the time inconsistency problem by committing to a fixed rule for monetary policy. This approach prevents the bank from succumbing to short-term pressures, such as accommodating wage hikes through monetary expansion. By adhering to a transparent and consistent rule, the institution maintains its credibility and prevents market participants from expecting inflationary deviations from stated policy goals.

9. (C) Both I and II
The relationship between central bank accountability and independence is a subject of ongoing academic debate. Some researchers suggest that higher accountability might inherently limit independence, creating a negative correlation between the two. However, others argue that this conclusion depends heavily on how accountability is measured, suggesting that the two concepts can be complementary rather than mutually exclusive in practical governance.

10. (C) Is free to choose the specific methods and tools in order to achieve pre-specified goals.
Instrument independence refers to the central bank's authority to select and utilize its own policy tools without interference from the government. While the overarching macroeconomic goals, such as an inflation target, might be set by the legislature, the bank remains autonomous in deciding how to achieve them. This operational freedom is vital for the technical and effective execution of policy.

11. (A) P-2, Q-4, R-1, S-3
The ELRIC framework is a comprehensive tool used by the International Monetary Fund to conduct safeguard assessments of central banks. It specifically categorizes critical operational areas such as external audit mechanisms, legal structure and independence, financial reporting, and internal control systems. This systematic approach ensures that these institutions remain accountable to the public while maintaining their operational and financial integrity.

12. (B) II, I, III
The evolution of central bank independence accelerated during the late 1990s across several major global economies. The Bank of Japan achieved its operational independence in early 1998, followed closely by the legal independence granted to the Bank of England later that same year. Finally, the European Central Bank became fully operational in 1999 as a supranational institution managing the euro.

13. (A) It helps in shaping and adapting public perceptions and expectations towards inflation.
A central bank with a proven track record of maintaining low inflation gains significant credibility, which is essential for managing future monetary policy. This reputation helps anchor public expectations, making it easier to achieve stability through communication alone. When people believe the bank will keep prices stable, they adjust their economic behavior accordingly, which reduces the need for aggressive policy interventions.

14. (C) Institutional structure combined with a clear mandate and anti-inflationary determination is essential for success.
The experience of the Reserve Bank of New Zealand demonstrates that institutional reforms can successfully curb high inflation even in historically tolerant environments. Success is achieved through a combination of a robust legal framework, a precise policy mandate, and a strong institutional commitment to stability. This model shows that structural independence, when backed by clear objectives, can transform national economic outcomes.

15. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Transparency and adequate disclosure by a central bank serve as powerful deterrents against excessive risk-taking and policy inconsistency. When the costs and commitments of financial contracts are clearly communicated, market participants can make better-informed decisions. This environment of openness ensures that the bank remains accountable for its actions and reduces the likelihood of making short-term decisions that compromise stability.

NODIA

16. (A) Many central banks were made subordinate to governments to facilitate war financing.
During the period surrounding the Second World War, the operational role of central banks shifted significantly as they became subordinate to national governments. The primary focus of these institutions was redirected toward facilitating the immense financing requirements of the war effort. This era of subordination marked a temporary departure from the earlier model of private and independent central banking seen in previous decades.

17. (D) I, II, and III
Democratic societies employ various mechanisms to ensure that independent central banks remain accountable to the public and the legislature. These include regular reviews of the bank's budget and expenditures, maintaining high levels of transparency in policy-making, and requiring the Governor to testify before parliament. Together, these practices ensure that the bank remains responsible for its decisions while fulfilling its mandate.

18. (A) A situation where the central bank independently selects its own objectives from a broader set of policy goals.
Goal independence exists when a central bank is legally empowered to determine its own primary objectives, such as choosing between price stability or employment targets. While many modern central banks have their goals set by legislation, those with goal independence have greater autonomy in defining their mission. This type of independence is distinct from instrument independence, which focuses on the tools used.

19. (D) The obligation of the central bank to bear responsibility for its monetary policy actions.
Central bank accountability is the fundamental obligation of the institution to explain and justify its decisions to the government and the public. It ensures that while the bank has the independence to conduct policy, it remains responsible for the outcomes of those actions. This responsibility is typically exercised through regular reporting, public communication, and legislative oversight, maintaining a balance in governance.

20. (A) An independent central bank operates in a vacuum and is completely unanswerable to the legislature.
Critics often raise concerns about the democratic legitimacy of independent central banks since unelected officials make significant economic decisions. However, it is incorrect to say these banks operate in a vacuum without any accountability. Most independent central banks are required to maintain regular communication with the government and the legislature, ensuring their actions are transparent and aligned with broader national interests.

21. (D) I, II, III, and IV
The IMF framework for conducting central bank safeguard assessments utilizes the ELRIC acronym to cover five essential pillars of governance. These include external audit mechanisms, the legal structure and independence of the bank, comprehensive financial reporting, internal audit mechanisms, and the implementation of a robust system of internal controls. Each component is vital for ensuring that the central bank operates with integrity and remains publicly accountable.

22. (A) I and II only
Personnel independence is achieved when the appointment and dismissal of senior central bank officials are protected from political interference. This includes establishing transparent procedures and specific legal grounds for removal to prevent arbitrary changes by the government. While these protections are essential for autonomy, they do not extend to the direct public election of the bank's leadership, which is uncommon.

23. (D) Demographic growth rate
Researchers evaluating the economic impact of central bank independence typically focus on macroeconomic variables that are directly influenced by monetary policy. Common metrics include average inflation rates, the variability of inflation, and overall real economic performance. Factors like demographic growth rates are generally excluded from these specific studies as they are driven by long-term social and biological trends rather than central bank autonomy.

24. (D) The Bank of England Act
The requirement for a central bank governor to issue an open letter explaining misses in inflation

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targets is a hallmark of the Bank of England Act. This accountability mechanism ensures that the reasons for the deviation and the proposed corrective actions are made public. It provides a structured way to maintain transparency while allowing for flexibility in extraordinary economic circumstances.

25. (B) The time or dynamic inconsistency problem
The time inconsistency problem occurs when a central bank abandons its announced policy of low inflation to achieve short-term gains, such as accommodating wage demands. While this might resolve immediate social pressure, it destroys the bank's long-term credibility. Once the public expects the bank to renege on its promises, they adjust their expectations upward, leading to higher and more persistent inflation.

26. (D) Political systems often act myopically, prioritizing short-term economic gains while neglecting long-term inflationary costs.
The primary economic rationale for granting central banks independence is the tendency of political systems to prioritize short-term results over long-term stability. Governments may pressure banks to keep interest rates low to boost activity before elections, leading to future inflation. Independence insulates monetary policy from these myopic pressures, allowing the bank to focus on maintaining price stability for sustainable growth.

27. (A) A secondary objective supporting the primary mandate of maintaining the bank's monetary policy accountability.
In a democratic framework, transparency is viewed as a vital secondary objective that supports the central bank's primary mandate. By openly discussing its decisions and operations, the bank remains accountable to society while fulfilling its role as an agent. Transparency does not weaken independence; rather, it strengthens it by building public understanding and support for the bank's long-term stability goals.

28. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The specific ownership structure of a central bank, whether public or private, does not necessarily dictate its operational effectiveness or decision-making process. What matters more is the degree of operational independence granted to the institution by law. As long as the bank can pursue its objectives without political interference, it can function effectively regardless of who technically holds its equity.

29. (D) I, II, III, and IV
Accountability indices for central banks in industrialized countries measure several key parameters to assess governance. These include the level of parliamentary monitoring, the release of detailed minutes from policy meetings, and the publication of comprehensive reports. Additionally, the existence of an override mechanism, where the government can legally intervene in extreme cases, is also considered a factor in these indices.

30. (C) Both I and II
Conflicts between an independent central bank and the government can lead to short-term economic challenges if monetary and fiscal policies are uncoordinated. However, over the long term, the financial stability achieved by an independent bank is essential for fostering higher economic growth and improved social welfare. This balance between short-term frictions and long-term benefits is central to the debate on independence.

31. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Although central banks aim to improve transparency, providing a massive volume of data can sometimes hide the most relevant information for policy understanding. Simultaneously, these institutions may maintain a degree of deliberate ambiguity to prevent market participants from forming precise expectations that could disrupt policy goals. These two concepts represent different challenges in communication rather than a direct causal relationship.

32. (D) I, II, and III
To improve coordination between monetary and fiscal policy, many governments have adopted self-disciplining measures in recent years. These include enacting fiscal responsibility legislations, placing clear restrictions on how much the central bank can accommodate government

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debt, and setting borrowing limits. These reforms aim to reduce fiscal deficits and allow the central bank to focus more effectively on its price stability mandate.

33. (B) P-4, Q-1, R-3, S-2
International financial standards are organized by subject area and corresponding key standards. Transparency in monetary and financial policies is governed by the IMF's Code of Good Practices, while data dissemination follows the SDDS or GDDS. Corporate governance is guided by OECD principles, and payment systems are overseen through the Core Principles for Systemically Important Payment Systems developed by BIS.

34. (D) They serve as a backing for the issuance of currency.
Beyond their use in open market operations, government securities play a fundamental role as assets on a central bank's balance sheet. They serve as the primary backing for the issuance of national currency, providing a credible and secure foundation for the money supply. This link between sovereign debt and currency issuance is a traditional cornerstone of modern central banking operations.

35. (A) It alters firm incentives for long-term investments, directly affecting real economic activity.
According to the Keynesian view, a central bank's decision to lower interest rates influences the real economy by reducing the cost of borrowing for firms. This change alters the incentives for long-term capital investment, which in turn boosts aggregate demand and helps combat economic slowdowns. In this paradigm, money is not neutral, and monetary policy has direct effects on production.

36. (A) Primary Dealers
Primary Dealers are critical participants in the government's market borrowing programme. These specialized institutions act as intermediaries, participating in auctions for government securities and providing liquidity in the secondary market. By underwriting issues and maintaining active trading, they assist the central bank in implementing the government's borrowing requirements efficiently and ensuring that debt is absorbed by the broader financial system.

37. (A) The asymmetric information regarding economy policies via international standards.
The 1994 Mexican crisis underscored the dangers of asymmetric information and a lack of clarity in macroeconomic policy. The international community realized that such crises could be mitigated by adopting global standards that promote transparency and timely data disclosure. By reducing information gaps, these standards help market participants make better assessments and react more calmly to economic events in emerging markets.

38. (D) I, II, III, and IV
Modern perspectives on monetary policy emphasize its central role in macroeconomic stabilization. While classical views often saw money as neutral, contemporary theories recognize that anticipated policy can have real effects if market rigidities exist. Since fiscal policy is often less agile due to political constraints, central banks are usually tasked with countering demand shocks and maintaining stability through a rule-based approach.

39. (D) The government borrows annually just to repay principal and interest on accumulated debt.
A debt trap occurs when a government's fiscal deficit becomes so large that its annual borrowing is primarily used to service existing debt rather than funding new expenditures. In this situation, the government is forced to borrow just to pay interest and principal on accumulated obligations. This cycle creates a unsustainable fiscal path that can severely limit a country's economic growth.

40. (D) Publishing official reports, key variable forecasts with risks, and explanations for central bank decisions.
Best practices for central bank transparency involve a comprehensive communication strategy to enhance accountability. This includes publishing regular official reports, providing forecasts for inflation and growth along with associated risks, and clearly explaining the rationale behind policy decisions. Such openness helps align market expectations with the bank's

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objectives and ensures that the institution remains answerable to the public it serves.

41. (B) Devolvement
Devolvement is a specific mechanism used during government bond auctions when the market demand at the desired interest rate is insufficient to cover the total offer. In such instances, the central bank requires primary dealers or other registered underwriters to absorb the remaining portion of the securities. This ensures that the government meets its borrowing targets despite market volatility or a lack of demand.

42. (C) Insurance Supervision - IAIS
International financial standards are promulgated by various specialized institutions according to their sector of expertise. The International Association of Insurance Supervisors (IAIS) is specifically responsible for establishing the core principles for insurance supervision. Other sectors, such as banking and accounting, are covered by different bodies like the Basel Committee and the International Accounting Standards Board, creating a comprehensive global framework.

43. (B) Governments were bestowed with the responsibility of enhancing economic growth, while central banks were mandated to ensure monetary stability.
In response to the stagflation and inflationary pressures of the 1970s, policy priorities were realigned to create a clearer division of labor. Governments took the lead on fostering economic growth through fiscal measures, while central banks were given the primary mandate of ensuring monetary stability and price control. This separation of duties was designed to prevent the short-term trade-off between inflation and growth.

44. (A) II, III, I, IV
Macroeconomic paradigms have evolved significantly since the end of the Second World War. The Keynesian focus on expansionary fiscal policy dominated the early post-war era until the stagflation of the 1970s challenged these tenets. This led to the rise of new-classical economics emphasizing rational expectations and rules, followed in the 1980s by game theory applications highlighting the need for monetary-fiscal coordination.

45. (C) It reduces security prices, lowering portfolio value, and pushes up loan rates.
When heavy government borrowing drives up interest rates, it has a direct negative impact on the balance sheets of commercial banks holding older government securities. As interest rates rise, the market value of existing fixed-rate securities falls, leading to portfolio losses. Simultaneously, the higher cost of funds in the market forces banks to increase the interest rates they charge on their own loans.

46. (B) The Reserve Bank of India was not represented on this Task Force.
The Financial Stability Forum established the Task Force on Implementation of Standards to define a core set of international benchmarks for financial stability. Chaired by Mr. Andrew Sheng, the task force included representation from the Reserve Bank of India, ensuring a global perspective on these standards. Its comprehensive report was presented to the G-20 and eventually adopted by the international community.

47. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Assessing the net impact of government borrowing on economic growth is complex because the productivity of public funds is not always immediate. While large-scale borrowing may crowd out private investment, the funds might be utilized for critical long-term infrastructure projects. The benefits of such investments often materialize over many years, making it difficult to judge their true effect on growth today.

48. (B) It allows policy goals to be achieved through public announcements without specific instruments.
A credible central bank possesses a powerful intangible asset that enhances its policy effectiveness. When the public trusts the bank's commitment to its targets, the mere announcement of an intention can influence market behavior and expectations. This credibility allows the institution to achieve its goals more efficiently, sometimes reducing the

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need for direct intervention or the use of specific monetary instruments.

49. (A) Interest rates and prices
The size and financing method of a fiscal deficit are critical factors for a central bank because they directly influence interest rates and the overall price level. Large deficits funded through market borrowing can push up rates, while direct monetization can lead to excessive money supply and inflation. Stabilizing these two variables is essential for maintaining macroeconomic balance and sustainable economic growth.

50. (A) Only I
The new-classical economists of the 1970s introduced models based on rational expectations and the assumption that markets clear without rigidities. They argued that anticipated policy changes would be neutral in the long run and only unanticipated measures could have real effects. Therefore, they believed that discretionary stabilization policy was often ineffective, emphasizing instead the importance of stable, rule-based frameworks for monetary policy.

51. (A) P-2, Q-1, R-3, S-4
The government's market borrowing programme involves several participants with distinct roles. The government announces its borrowing targets, while the central bank implements the programme as the manager of public debt. Primary dealers act as underwriters for any unabsorbed portions of securities auctions. Commercial banks typically absorb a large portion of these securities, which can sometimes constrain their ability to lend.

52. (D) IOSCO - International Office of Securities Commissions
International financial standards are developed by various global organizations, each with a specific name and mission. While IASB, IFAC, and BCBS are correctly associated with accounting, auditing, and banking respectively, IOSCO stands for the International Organization of Securities Commissions. These bodies work together to create a robust global framework for financial regulation, transparency, and reporting across different sectors and jurisdictions.

53. (C) The government became the principal debtor, relying heavily on central bank advances.
Over time, the unique relationship between the state and the central bank evolved into one where the government became the institution's principal debtor. Governments frequently relied on the central bank to provide advances and fund budgetary gaps, a practice that increased during periods of crisis or war. This reliance highlighted the need for modern reforms to separate fiscal and monetary management.

54. (C) The crowding-out effect
The crowding-out effect occurs when aggressive government borrowing in financial markets absorbs the available liquidity, leaving fewer funds for private investment. This increased demand for capital pushes up interest rates, making it more expensive for corporations to borrow and expand. As a result, private sector activity may decline, potentially offsetting the stimulative impact of the government's own deficit-funded spending.

55. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Since the mid-1980s, the importance of coordination between monetary and fiscal policy has been emphasized to achieve balanced growth and price stability. Game theory research demonstrated that when these two policy arms act independently without cooperation, the economic results are often sub-optimal. Such non-cooperative behavior can lead to higher inflation and lower social welfare, necessitating a more unified approach.

56. (A) P-4, Q-1, R-2, S-3
Key international financial standards are developed by specific global institutions dedicated to different regulatory sectors. The IASB sets international accounting standards, while IFAC oversees standards for auditing. The Basel Committee (BCBS) provides principles for banking supervision, and the FATF-OECD develops recommendations to combat money laundering. Together, these standards form the backbone of the global financial architecture and promote transparency.

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57. (A) Banks will be constrained in conducting their lending operations to the private sector.
When the government aggressively borrows from the domestic market, commercial banks often use a significant portion of their available funds to purchase these sovereign securities. This high level of investment in government debt reduces the liquidity available for private retail and corporate loans. Consequently, the banking sector's capacity to support private economic activity is constrained by the government's fiscal requirements.

58. (A) To support the governments in financing their budgetary gaps.
The earliest central banks, such as the Sveriges Riksbank and the Bank of England, were primarily established to assist their respective governments in managing and financing large budgetary deficits. Their original mission was focused on providing fiscal support rather than the modern objectives of price stability or commercial bank supervision. This fiscal role remained a dominant feature of central banking for many centuries.

59. (C) EMEs often possess foreign exchange reserves that make foreign borrowing unnecessary.
Emerging Market Economies typically face significant challenges in financing their public debt through international markets. These instruments are often less traded and receive lower ratings compared to developed nations, leading to higher perceived risks for global investors. While some EMEs hold substantial foreign exchange reserves, this does not eliminate their need for borrowing; rather, the limitations on foreign financing are driven by market access.

60. (B) It validated the short-run trade-off where lower unemployment is achieved via higher inflation.
The stagflation of the early 1970s fundamentally challenged existing economic theories by showing that high inflation and high unemployment could occur simultaneously. This experience invalidated the traditional Phillips curve, which suggested a stable short-run trade-off between the two. Subsequent analysis demonstrated that there is essentially no long-term trade-off, leading to a shift toward prioritizing price stability in monetary policy.

61. (C) The Ways and Means Advances (WMA) system
The introduction of the Ways and Means Advances system in 1997 marked a significant milestone in India's financial history. By replacing the previous system of ad hoc treasury bills, this mechanism effectively ended the automatic monetization of the government's fiscal deficit. It established a more disciplined framework for meeting short-term financing needs within clearly defined and pre-announced limits each year.

62. (A) The central bank would be strictly prohibited from giving any advice to the debt management entity.
Even when a separate debt management entity is created, the central bank continues to play a vital advisory role. Because the bank constantly monitors market liquidity and economic conditions, its insights on the timing and size of debt issues are invaluable. Coordination between these two bodies is essential for maintaining market stability and ensuring that debt management doesn't disrupt monetary policy.

63. (A) They were created as a permanent, non-inflationary instrument for infrastructure projects.
Ad hoc Treasury Bills in India were originally developed as a temporary measure to manage short-term fiscal needs, including the repatriation of sterling debt during the Second World War. Contrary to being non-inflationary, they eventually led to the automatic monetization of the fiscal deficit, which created inflationary pressures. These bills were never intended to be a permanent or primary funding source.

64. (A) P-3, Q-4, R-2, S-1
Macroeconomic thought has transitioned through several distinct eras since the classical period. Classical economists viewed money as neutral, while Keynesians emphasized using fiscal expansion to address demand deficiencies. The new-classical paradigm stressed that anticipated policies are neutral, and the game theory era highlighted how non-cooperative behavior between policy arms leads to sub-optimal outcomes. Each era refined the understanding of monetary-fiscal coordination.

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65. (A) An eventual increase in prices as too much money chases too few goods.
When a government borrows excessively to fund unproductive spending and the central bank supports this by injecting large amounts of liquidity, the long-term result is typically inflationary. The excessive money supply in the system eventually drives up the prices of goods and services as demand outstrips supply. This classic inflationary outcome undermines the central bank's primary goal of maintaining price stability.

66. (A) Japan - Established a separate sovereign debt management unit.
Several developed nations have moved toward establishing separate sovereign debt management units to isolate this function from monetary policy. Countries like Ireland, Sweden, and Australia have successfully implemented this structural separation. However, Japan has not adopted this specific model of a separate entity, maintaining a different organizational approach to managing its public debt and coordinating its national economic policies.

67. (C) Direct monetization lasted from the mid-fifties to 1997, while private placements emerged in the late 1990s.
The history of government financing in India shows a distinct transition between different methods of resource mobilization. Direct monetization through ad hoc treasury bills was the primary method from the mid-fifties until its abolition in 1997. Following this period, the late 1990s saw the emergence of private placements of government securities as a tool for managing specific liquidity and financing needs.

68. (B) It threatened to undermine monetary policy by infusing liquidity into the system.
During the early 1960s, the Reserve Bank of India faced a conflict between its restrictive monetary policy and its role as a market stabilizer. While raising rates to curb inflation, the bank also purchased government securities to maintain market conditions. These open market purchases infused liquidity back into the financial system, which threatened to counteract the intended effects of the bank's contractionary policy.

69. (A) P-2, Q-3, R-4, S-1
Central bank independence is categorized into several distinct types, each serving a specific purpose. Personnel independence protects officials from political interference, while financial independence limits the direct financing of government spending. Goal independence allows a bank to set its own objectives, whereas instrument independence provides the freedom to choose the tools needed to achieve targets set by the legislature.

70. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Private placements of government securities with a central bank can lead to higher commodity prices because they often signal an increase in future aggregate demand. When market participants expect higher demand fueled by such placements, they adjust their price expectations upward. This link between central bank financing and public expectations illustrates how monetization can directly contribute to inflationary pressures in the economy.

71. (A) Policy Credibility
Policy credibility is the most vital asset for any central bank aiming to manage inflation expectations effectively. When an authority fails to stick to its announced targets, the public adjusts its behavior and expectations upward, leading to persistent inflationary pressure. This erosion of trust makes future policy actions less potent, as market participants no longer believe in the institution's stated objectives.

72. (C) Both I and II
The 1955 agreement on ad hoc Treasury Bills established an automatic financing mechanism for the Indian government. It allowed for the creation of bills whenever the government's cash balance dropped below a certain minimum and mandated their cancellation once the balance was restored. This operational arrangement ensured a continuous flow of funds but ultimately led to the automatic monetization of deficits.

73. (D) I, II, III, IV, and V
In a framework where debt management is separated from monetary policy, the government assumes full responsibility for strategic borrowing

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decisions. This includes determining the size and timing of issues, as well as the mix of bonds and treasury bills. Additionally, the government must decide on maturity patterns and coupon rates to minimize borrowing costs while ensuring that the overall debt remains sustainable.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
When a central bank prioritizes lowering the government's interest servicing costs over its own stability mandate, it harms the economy's medium-term performance. Such actions erode the bank's ability to influence market expectations and defend stable interest rate paths. Without a credible commitment to stability, market participants lose faith in the bank's policy, leading to increased volatility and long-term inflationary risks.

75. (D) Briault, Haldane, and King - Constructed an accountability index for fourteen industrialized countries.
Researchers have developed various indices to quantify and compare the level of accountability among global central banks. Briault, Haldane, and King notably constructed a comprehensive accountability index for fourteen industrialized nations to evaluate their governance practices. These indices are essential for understanding how transparency and legislative oversight correlate with the economic performance and independence of these influential financial institutions.

76. (D) They offload them in the market as liquidity conditions improve in the foreseeable future.
Central banks often prefer to treat private placements of government securities as temporary holdings rather than permanent investments. As market liquidity conditions become more favorable, the bank typically offloads these securities to private investors and institutions. This approach helps manage the overall money supply and prevents the long-term monetization of government debt from permanently expanding the central bank's balance sheet.

77. (B) P-3, Q-4, R-1, S-2
Global financial regulation is divided among several specialized bodies that develop core principles for their respective sectors. The Basel Committee (BCBS) focuses on banking supervision, while the IAIS oversees insurance supervision. Payment and settlement systems are governed by BIS principles, and market integrity, specifically anti-money laundering efforts, is the responsibility of the FATF. This sectoral approach ensures comprehensive global oversight.

78. (A) I, II, III, and IV only
The Ways and Means Advances system introduced in 1997 provides the Indian government with short-term liquidity within pre-announced limits. These advances are meant to be fully repaid within three months, and any overdrafts incurred are subject to higher interest rates. To maintain fiscal discipline, strict restrictions are placed on the duration of these overdrafts, ensuring the system remains a temporary financing tool.

79. (B) New Zealand
New Zealand is frequently cited as a global model for its early and successful separation of sovereign debt management from monetary policy. By establishing a dedicated government debt office in the late 1980s, the country ensured that its Reserve Bank could focus exclusively on maintaining price stability. This structural separation has been instrumental in enhancing both the independence and the credibility of its monetary policy.

80. (D) By imposing an incremental Cash Reserve Ratio (CRR).
In 1960, the Reserve Bank of India sought to tighten monetary policy despite government opposition to higher interest rates. To achieve this without raising the primary Bank Rate, the RBI utilized the Cash Reserve Ratio as an alternative tool. By imposing an incremental CRR, the bank effectively reduced the lending capacity of commercial banks, thereby tightening credit conditions and addressing inflationary concerns.

81. (C) To maintain accountability while autonomous in price stability and growth goals.
Modern central banks practice high levels of transparency to balance their operational independence with the need for public accountability. By disclosing the rationale behind their decisions and publishing regular reports, they ensure that the legislature and public can

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evaluate their performance. This openness supports their mandate to pursue long-term stability and growth goals while remaining answerable to the democratic society.

82. (A) I, II, and III only
The 1994 agreement between the RBI and the Government of India was a critical step in phasing out automatic monetization. It established specific annual and intra-year limits on the creation of ad hoc treasury bills. If these limits were exceeded, the agreement mandated that the RBI auction securities to reduce the excess, creating a structured path toward the eventual abolition of the system.

83. (D) Banks are legally prohibited from holding any government securities beyond the statutory limit.
In many emerging economies, commercial banks may be reluctant to hold government securities beyond their statutory requirements due to market constraints. These include underdeveloped secondary markets and a lack of liquidity, which make it difficult to trade these instruments. Additionally, lending to other sectors often offers higher returns, making extra government debt less attractive for a bank's overall portfolio and profitability.

84. (A) P-3, Q-4, R-1, S-2
International institutions are responsible for developing specific standards to harmonize global financial practices. The OECD provides principles for corporate governance, while the World Bank focuses on insolvency and creditor rights. The IMF oversees data dissemination standards like the SDDS, and the IASB develops international accounting standards. These frameworks together promote global financial stability, transparency, and a consistent level of institutional accountability.

85. (C) The central bank would focus on price stability without being diverted by debt management or borrowing cost issues.
The primary theoretical underpinning for separating debt management from the central bank is to allow the bank to focus solely on price stability. Without the responsibility of managing government borrowing or minimizing its costs, the central bank can make monetary decisions based on economic data rather than fiscal needs. This separation eliminates potential conflicts of interest and enhances the credibility of monetary policy.

86. (C) Both I and II
The 1955 operational arrangement for ad hoc Treasury Bills in India established an automatic mechanism for financing the central government's cash shortfalls. It enabled the creation of bills whenever balances fell below a minimum level and their cancellation upon replenishment. This system provided a reliable flow of short-term funds but effectively institutionalized the automatic monetization of the fiscal deficit for several decades.

87. (A) P-4, Q-3, R-2, S-1
The government securities market involves several distinct entities and processes that ensure its efficient operation. Primary dealers act as underwriters for unabsorbed auction portions, while the central bank manages the overall borrowing programme. The government remains responsible for broader fiscal policy, and the consolidation of debt through long-term securities helps manage the sovereign's floating debt and overall repayment profile over time.

88. (B) Banks could refuse to absorb government securities in periods of economic buoyancy if expected yield rates are unattractive.
A significant risk of relying on future offloading of privately placed securities is that market conditions may change unpredictably. During periods of economic growth, banks and other financial institutions might find other investments more profitable. If the yields on government securities are not competitive, market participants may refuse to absorb them, leaving the central bank with large, unintended holdings on its balance sheet.

89. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Managing both debt and monetary policy within a single institution creates a significant conflict of interest regarding interest rate decisions. In academic discussions, this situation is compared to an insider information problem, where the central bank might keep rates artificially low to

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reduce the government's borrowing costs. Such actions can compromise the primary objective of maintaining long-term price stability and market neutrality.

90. (A) 1957
The Reserve Bank of India officially voiced its concerns regarding the growing reliance on ad hoc treasury bills in 1957. The central bank noted that the process of accommodating government financing needs was becoming purely mechanical, which threatened its ability to control the money supply effectively. This observation highlighted early tensions between fiscal requirements and independent monetary policy objectives in India's history.

91. (C) I, II, III, IV, and V
The crowding-out effect involves a sequential logic where government borrowing absorbs market funds, leaving less capital available for private investment. This reduction can harm economic growth, although the net impact is difficult to measure if the government invests in long-term infrastructure. The true productivity of such public investments often only becomes clear in the long run after a thorough cost-benefit analysis has been performed.

92. (D) I, II, and III
Several global factors have recently revived interest in central bank independence, including reforms in formerly centrally planned economies and the creation of the European Central Bank. Additionally, the increasing volume of cross-border financial flows has made price stability more critical for maintaining investor confidence. These developments have highlighted the need for autonomous institutions that can ensure economic stability in an interconnected world.

93. (D) Revoking the charter if output growth falls below a pre-specified threshold.
Democratic societies employ various mechanisms to ensure that independent central banks remain accountable to the public and the legislature. These include regular reviews of the bank's budget and expenditures, maintaining high levels of transparency in policy-making, and requiring the Governor to testify before parliament. While accountability is vital, revoking a bank's charter based solely on short-term output growth is not a standard practice.

94. (C) The RBI triggers fresh security floatation; surplus cash balances are invested in RBI paper.
Operational protocols dictate that the Reserve Bank should initiate the floatation of new government securities when the government utilizes seventy-five percent of its established advance limit. Furthermore, if the central government maintains surplus cash balances above a specific threshold, these funds are typically invested in the Reserve Bank's own papers. This ensures efficient liquidity management and maintains fiscal discipline for the national treasury.

95. (D) I, II, III, IV, and V
The Task Force on Implementation of Standards identified twelve key international standards essential for financial stability. These standards cover a broad range of subject areas, including data dissemination, insolvency systems, corporate governance, and professional standards for accounting and auditing. Implementing these standards helps countries build robust financial systems that are transparent, efficient, and well-regulated according to globally recognized best practices.

96. (C) Both I and II
The modern concept of central bank independence emerged in the twentieth century, particularly following the heavy deficit financing experienced during the First World War. Conferences organized by the League of Nations recognized that independent central banks could contribute significantly to price stability. These historical lessons laid the foundation for the contemporary view that isolating monetary policy from political power is essential for stability.

97. (A) The summit concluded that central banks must avoid transparency to manage global financial crises effectively.
The 1995 Halifax Summit of the G-7 countries was a landmark event that emphasized the importance of transparency in the international financial architecture. Contrary to avoiding openness, the summit concluded that increased transparency was essential for preventing and managing financial crises. These efforts were

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further accelerated following the East Asian crisis, leading to the creation of various global standards and working groups.

98. (A) I, II, III, and IV only
The transition to the Ways and Means Advances system in 1997 required several structural changes to ensure a smooth shift in government financing. This included increasing the proportion of auctioned treasury bills and setting clear half-yearly limits on short-term advances. These reforms were designed to replace automatic monetization with a more disciplined and transparent framework while allowing for the investment of surplus government cash.

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99. (A) I, II, and III only
Best practices for central bank transparency involve a comprehensive communication strategy to enhance accountability. This includes publishing regular official reports, providing forecasts for inflation and growth along with associated risks, and clearly explaining the rationale behind policy decisions. Such openness helps align market expectations with the bank's objectives and ensures that the institution remains answerable to the public it serves across the country.

100. (D) An insider information problem
Managing both debt and monetary policy within a single institution creates a significant conflict of interest regarding interest rate decisions. In academic discussions, this situation is compared to an insider information problem, where the central bank might keep rates artificially low to reduce the government's borrowing costs. Such actions can compromise the primary objective of maintaining long-term price stability for the economy.

CHAPTER 04
Reserve Bank of India

May/June 2016

1. The Preamble to the Reserve Bank of India Act, 1934, outlines the fundamental objectives of the institution. Which of the following is the most appropriate representation of these objectives?

(A) To issue currency notes, manage public debt, and provide direct supervision to commercial banks.

(B) To act as a lender of last resort and manage the external value of the rupee as linked to pound sterling.

(C) To promote institutional rural credit and direct the flow of capital to industrial sectors.

(D) To regulate note issue, maintain reserves for monetary stability, and operate the currency and credit system.

Oct/Nov 2009

2. A developing economy is experiencing a high fiscal deficit, and its central bank routinely monetizes this deficit. According to the Tarapore Committee, which precondition must be reasonably satisfied before public debt management can be effectively separated from the central bank's monetary policy operations?

(A) The immediate elimination of all statutory liquidity requirements for existing commercial banks.

(B) The administrative merger of all public sector banks into a single state-owned financial entity.

(C) The achievement of a reasonable degree of fiscal responsibility and control over the fiscal deficit.

(D) The complete deregulation of all capital account transactions for international currency markets.

May/June 2023

3. During the early twentieth century, the exchange rate arrangement in India was criticized because the British Government prioritized facilitating remittances for which of the following obligations?

(A) Transfer of commercial banking profits to the Imperial Bank of India

(B) Foreign exchange transactions linked to the defense of the non-sterling area currencies

(C) "Home Charges" payable in Sterling for obligations such as interest on debt and pensions

(D) Import financing required for the rapid industrialization under British rule

Oct/Nov 2018

4. Following the reorganization of the RBI in 1945, which department was formed from the upgrading of the Statistical and Research Section to provide research and advice to the Government?

(A) Department of Information Technology (DIT)

(B) Department of Banking Operations

(C) Department of Research and Statistics (DRS)

(D) Department of Economic Analysis and Policy (DEAP)

May/June 2007

5. Historical and modern payment mechanisms have evolved significantly in India. Identify the incorrect pair regarding payment instruments or systems.

(A) Hundis - Credit instruments known since the twelfth century

(B) RTGS - System primarily meant for retail micro-transactions below Rs. 2 lakh

(C) MICR - Magnetic Ink Character Recognition used for cheque processing

(D) AEPS - Operations from Aadhaar seeded bank accounts using biometric authentication

Oct/Nov 2025

6. Following the inception of the planning era in 1951, which of the following statements

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correctly identifies the primary shift in the banking sector policy?
(A) The policy completely deregulated commercial banking to favor foreign bank expansion across the nation.
(B) The operations of the financial system were required to be consistent with the priorities of Five-Year Plans.
(C) The central bank abandoned its developmental role to focus strictly on market operations and price stability.
(D) The RBI delegated the management of public debt entirely to the State Bank of India's central office.

May/June 2012

7. In the context of early central banking history, which of the following best defines the traditional functions that were typically carried out by a central bank prior to its overt recognition as a specialized business distinct from commercial banking?
(A) Managing clearing houses and holding foreign exchange reserves
(B) The note issue function and acting as a banker to the government
(C) Regulating non-banking financial companies and providing agricultural credit
(D) Setting statutory liquidity ratios and managing public debt

Oct/Nov 2014

8. Consider the following statements regarding the monetary-fiscal interface in India:
I. In the early 1950s, the RBI financed government debt through automatic monetization.
II. Ad hoc Treasury bills were created whenever the Government's balances with the RBI fell below the minimum stipulated balance.
III. The First Supplemental Agreement between the RBI and the Government of India in 1994 set out limits for the creation of ad hoc treasury bills.
IV. Ad hoc Treasury bills were replaced by a system of Ways and Means Advances in 1997.
V. The RBI's participation in primary auctions of Government securities continues under the FRBM Act, 2003.
Which of the above statement(s) is/are correct?
(A) Only I, II, III and IV
(B) Only II, III, IV and V
(C) Only I, III, IV and V
(D) I, II, III, IV and V

May/June 2019

9. According to the original provisions of the Reserve Bank of India Act, which body was mandated to represent geographical divisions and advise the Central Board on matters referred to it?
(A) The State Financial Corporations
(B) The Local Boards
(C) The Regional Rural Banks Steering Committee
(D) The Department of Banking Development

Oct/Nov 2006

10. The Reserve Bank of India actively promoted various specialized financial institutions during the planning era. Match the institutions in List-I with their corresponding year of establishment in List-II.
List I: (Institution)
P. Industrial Finance Corporation of India (IFCI)
Q. Agricultural Refinance Corporation (ARC)
R. National Bank for Agriculture and Rural Development (NABARD)
S. Unit Trust of India (UTI)
List II: (Year of Establishment)
1. 1982
2. 1948
3. 1964
4. 1963
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-2, S-1

May/June 2021

11. During the 1950s and 1960s, which of the following issues did NOT prompt the philosophy of Social Control over banking in India?
(A) Concentrated banking operations and resource allocation in urban and metropolitan geographic areas.
(B) Skewed distribution of credit in favour of large industrial houses and established trading sectors.
(C) Unlawful and private interest nexus between banks, insurance companies, and industrial business concerns.

NODIA

(D) Over-lending to small-scale industries and agricultural sectors resulting in massive non-performing assets.

Oct/Nov 2010

12. The Royal Commission on Indian Currency and Finance (Hilton Young Commission) recommended ending the dichotomy of functions in 1926. Which of the following statements incorrectly represents the views or outcomes associated with this Commission?
(A) It proposed the establishment of a separate central bank called the Reserve Bank of India.
(B) It suggested that monetary control and credit control should vest in one and the same institution.
(C) The Bill introduced in 1927 based on its recommendations was immediately passed into law.
(D) It considered the separate existence of a central bank necessary for augmenting banking facilities.

May/June 2005

13. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:
Assertion (A): The Fiscal Responsibility and Budget Management Act (FRBM) of 2003 allowed the RBI to freely participate in the primary auctions of Government securities to lower the statutory liquidity ratios.
Reason (R): The participation by the RBI in primary auctions of the Government has been discontinued with effect from April 1, 2006.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

14. Consider the following statements regarding the Real Time Gross Settlement (RTGS) system:
I. RTGS is available 24x7x365 with effect from December 14, 2020.
II. The minimum amount to be remitted through RTGS is Rs. 2,00,000/- with an upper ceiling limit of Rs. 10,00,000/-.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and II are correct
(D) Neither Statement I nor II is correct

May/June 2018

15. To comply with the obligations of the International Monetary Fund (IMF), which specific statistical division was created within the Department of Research and Statistics of the RBI in 1948?
(A) Foreign Exchange Management Division
(B) Flow of Funds Accounts Division
(C) Division of Central Finances
(D) Balance of Payments Division

Oct/Nov 2016

16. The earliest known attempt to establish a bank in India possessing some characteristics of a modern central banking institution occurred in 1773. Which of the following institutions was set up as a result of this attempt?
(A) General Bank of Bengal and Bihar
(B) Bank of Calcutta
(C) National Banking Establishment
(D) Bank of Bengal

May/June 2014

17. Which legislation formalized comprehensive regulatory provisions for the banking sector in India, following the realization that the Indian Companies Act was insufficient for preventing unhealthy practices?
(A) The Banking Companies Act, 1949
(B) The State Financial Corporations Act, 1951
(C) The Foreign Exchange Regulation Act, 1973
(D) The Reserve Bank of India (Transfer to Public Ownership) Act, 1948

Oct/Nov 2007

18. The evolution of central banking in India witnessed several institutional milestones. Arrange the following events in their correct chronological order:
I. Passing of the Paper Currency Act vesting the sole right to issue notes in the Government.
II. Formation of the Imperial Bank of India through the amalgamation of three

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Presidency Banks.
III. Establishment of the Bank of Calcutta.
IV. Enactment of the Reserve Bank of India Act.
(A) III, I, II, IV
(B) I, III, II, IV
(C) III, II, I, IV
(D) I, II, III, IV

May/June 2025

19. To insulate monetary policy from the short-term effects of internal debt management, which specific tool is primarily utilized by the Reserve Bank of India to achieve operational independence?
(A) Ways and Means Advances
(B) Ad hoc Treasury bills
(C) Automatic monetization
(D) Liquidity Adjustment Facility (LAF)

Oct/Nov 2019

20. Consider the following statements regarding the Cyber Security Framework in Banks introduced by the RBI:
I. Banks must immediately put in place a Board approved cyber security policy distinct from the broader IT policy.
II. Banks are required to set up a Security Operations Centre (SOC) for continuous surveillance of cyber threats.
III. The framework eliminates the need for IT examination during the overall risk assessment under the risk-based supervision process.
IV. Banks must share information on cyber security incidents with the RBI.
Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only I, II and IV
(C) Only II, III and IV
(D) I, II, III and IV

May/June 2009

21. The All-India Rural Credit Survey (1951) was conducted under the auspices of the Reserve Bank of India. Which of the following statements incorrectly reflects the outcomes of this survey?
(A) It brought to focus the weaknesses in the banking structure regarding rural finance.
(B) It highlighted the need for ensuring adequate flow of finance to the hitherto neglected sectors.
(C) It recommended the immediate closure of all primary agricultural cooperative societies.
(D) It prompted the RBI to initiate measures for extending banking facilities to semi-urban areas.

Oct/Nov 2011

22. The Reserve Bank of India (Transfer to Public Ownership) Act, 1948, led to the nationalization of the RBI in 1949. Which of the following is not listed among the core functions of the RBI as laid down in the original statutes?
(A) Issue of currency
(B) Regulation of non-banking financial companies
(C) Being a banker to the government, including debt management
(D) Being a banker to commercial banks

May/June 2010

23. The Reserve Bank of India constituted various committees to guide the technological transformation of the banking system. Identify the correct pair of the committee and its primary area of focus.
(A) Hilton Young Commission - Technological transformation of banking
(B) Chamberlain Commission - Resolution of cyber security threats
(C) Fowler Committee - Guidelines on limiting customer liability in PPIs
(D) Saraf Committee - Use of information and communication technology for payment systems

Oct/Nov 2024

24. Which department of the Reserve Bank of India was specifically created in 1936 to address agricultural credit needs and link indigenous bankers to the modern banking system?
(A) The Department of Non-Banking Companies
(B) The Industrial Finance Department
(C) The Rural Planning and Credit Cell
(D) The Agriculture Credit Department (ACD)

May/June 2017

25. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two

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statements carefully and select the correct answer according to the options given below:
Assertion (A): In the pre-reform period in India, expansionary fiscal policy was often financed by resorting to automatic monetization.
Reason (R): The tool of short-term financing became a permanent source of funds through the automatic creation of ad hoc Treasury bills whenever government balances fell below minimum levels.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

26. Following the amalgamation of the three Presidency Banks, the Imperial Bank of India was formed in 1921. Which of the following statements correctly identifies the central banking functions entrusted to the Imperial Bank of India?
(A) It managed the regulation of note issue alongside its commercial banking functions.
(B) It was fully responsible for the management of foreign exchange and credit control.
(C) It held the sole right to issue notes under the Paper Currency Act.
(D) It performed the functions of banker to government and to some extent bankers' bank.

May/June 2020

27. Who served as the first Indian Governor of the Reserve Bank of India from August 1943 to June 1949, providing a stabilizing force during the partition of the country?
(A) Sir C.D. Deshmukh
(B) Sir Earnest Cable
(C) Prof. J. M. Keynes
(D) Dr. I. G. Patel

Oct/Nov 2015

28. The Reserve Bank of India has been a catalyst in developing financial market infrastructure. Match the institutions in List-I with their primary purpose/nature in List-II.
List I: (Institution)
P. Discount and Finance House of India (DFHI)
Q. Clearing Corporation of India Ltd. (CCIL)
R. Banking Codes and Standards Board of India (BCSBI)
S. National Payment Corporation of India Ltd (NPCI)
List II: (Primary Purpose)
1. Formed to upgrade clearing and settlement of debt instruments and forex transactions.
2. Promoted in 1988 to aid in developing the Government securities market.
3. Created to develop a comprehensive code of conduct for fair treatment of customers.
4. Set up as an umbrella organization for retail payments.
(A) P-1, Q-2, R-4, S-3
(B) P-2, Q-1, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-1, S-4

May/June 2013

29. Under the original Reserve Bank of India Act, 1934, how was the institution initially constituted to protect it from political dominance?
(A) As a fully nationalized entity with all directors holding voting power
(B) As a subsidiary of the Imperial Bank of India
(C) As a shareholders' bank with the Central Government having powers to supersede the Central Board
(D) As a joint-stock company controlled exclusively by the commercial bodies of Presidency towns

Oct/Nov 2021

30. Consider the following statements regarding the integration of retail electronic payments:
I. The APBS manages bulk government benefit payments to Aadhaar-seeded bank accounts and is linked to PFMS.
II. AEPS is strictly restricted to own-bank customers and cannot be used in an interoperable manner.
III. RuPay cards have gained importance with addition of millions of cards issued under the Prime Minister Jan Dhan accounts.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III

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(D) I, II and III

May/June 2024

31. Consider the following statements regarding the Board for Financial Supervision (BFS) set up in 1994:

I. The BFS is chaired by the Governor and has four nominated non-official members from the Central Board of Directors.

II. One of the Deputy Governors holding the charge of regulation and supervision is appointed as the Vice-Chairman of the BFS.

Which of the above statement(s) is/are correct?

(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and II are correct
(D) Neither Statement I nor II is correct

Oct/Nov 2008

32. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:

Assertion (A): No person other than the Reserve Bank of India can commence or operate a payment system in India unless authorised by the Reserve Bank.

Reason (R): The payment and settlement systems in India are regulated under the Payment and Settlement Systems Act, 2007 (PSS Act).

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

33. Based on the restructuring of the Department of Accounts and Expenditure (DAE) in the RBI, match the departments in List-I with their respective functions in List-II.

List I: (Department)

P. Department of Currency Management (DCM)
Q. Department of Expenditure and Budgetary Control (DEBC)
R. Department of Government and Bank Accounts (DGBA)
S. Department of External Investments and Operations (DEIO)

List II: (Function)

1. Manages internal accounts of the Bank and acts as banker to the Government.
2. Adopts anti-counterfeiting measures and ensures availability of notes and coins.
3. Manages foreign currency assets and handles external transactions with the IMF.
4. Makes budgetary allocations and operates housing loan schemes for employees.

(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2017

34. FIDD focuses on credit availability. Which of the following is NOT a primary function of FIDD?

(A) Formulating macro policy to strengthen credit flow to priority sectors.
(B) Enhancing the flow of credit to Self Help Groups and Minority Communities.
(C) Strengthening institutional arrangements like the Lead Bank Scheme.
(D) Managing the Government's debt in a risk efficient and cost effective manner.

May/June 2008

35. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:

Assertion (A): There is a duality of control over State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs).

Reason (R): The Reserve Bank regulates their banking functions under the Banking Regulation Act, 1949, whereas incorporation and management are looked after by the Registrar of Cooperative Societies.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2013

36. Match the operational Departments in List-I with their specific responsibilities in List-II.
List I: (Department)
P. Human Resource Management Department (HRMD)
Q. Inspection Department
R. Legal Department
S. Premises Department
List II: (Responsibility)
1. Provides independent risk assurance on the operations of the RBI offices.
2. Administers the Staff Suggestion Scheme and oversees Summer Placements.
3. Allocates capital budgets to Regional Offices and manages office space.
4. Appears before the Central Information Commission on behalf of the Bank.
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-2, S-4

May/June 2015

37. What was the overarching objective behind the nationalization of 14 major banks in India in 1969?
(A) To extend banking activities geographically to under-banked rural areas and functionally to priority sectors.
(B) To facilitate the strategic privatization and organizational restructuring of the State Bank of India.
(C) To merge all foreign banks operating in India into a single corporate entity under government control.
(D) To reduce the statutory liquidity ratio required to be maintained by all commercial banks and primary dealers.

Oct/Nov 2012

38. Which department of the RBI maintains the principal deposit accounts of State Governments and monitors the integration of financial systems for the collection of e-receipts?
(A) Department of Payment and Settlement Systems
(B) Department of Communication
(C) Department of Regulation
(D) Department of Government and Bank Accounts

May/June 2011

39. What is the name of the standard platform used by the DSIM for receiving and validating incoming financial data from banks?
(A) SFMS
(B) e-Kuber
(C) APBS
(D) XBRL

Oct/Nov 2020

40. Consider the following statements regarding the Monetary Policy Department (MPD) of the RBI:
I. It was renamed from the Credit Planning Cell as of 1st January 1998.
II. The Deputy Governor and Executive Director in-charge of MPD are Members of the Monetary Policy Committee (MPC).
III. It oversees matters pertaining to the Prevention of Sexual Harassment of women at the workplace.
IV. It played a major role in transforming the inter-bank call money market into a pure inter-bank call money market.
Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only I, II and IV
(C) Only II, III and IV
(D) I, II, III and IV

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May/June 2022

41. Consider the following statements regarding the Inspection Department of the RBI:
I. Risk Based Internal Audit (RBIA) provides an objective opinion on whether risks are being managed.
II. Information System Audit (ISA) is carried out as part of RBIA to assess IT controls.
III. Control Self-Assessment Audit (CSAA) is exclusively conducted by external firms.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II and III

Oct/Nov 2023

42. Over the years, the RBI established specialized units to address distinct financial sectors. Identify the correct pair of the entity and its primary focus area.
(A) Credit Planning Cell - Regulation and policy formulation for the foreign exchange

markets
(B) Industrial and Export Credit Department (IECD) - Managing the issuance of public debt
(C) Urban Banks Department (UBD) - Statutory and developmental work relating to urban cooperative banks
(D) Deposit Insurance Corporation (1962) - Providing long-term finance to heavy industries

May/June 2016

43. Which department of the RBI formulates the broad policy for IT Architecture and oversees subsidiaries like IFTAS and ReBIT to ensure a secure "Cyber Hygiene Culture"?
(A) Risk Monitoring Department
(B) Department of Information Technology
(C) Inspection Department
(D) Financial Stability Unit

Oct/Nov 2009

44. Which department of the RBI formulates the policy regarding the exchange of soiled and mutilated notes and monitors customer service in this regard?
(A) Department of Banking Supervision
(B) Consumer Education and Protection Department
(C) Department of Payment and Settlement Systems
(D) Department of Currency Management

May/June 2023

45. Match the Departments in List-I with their primary mandates in List-II.
List I: (Department)
P. Financial Markets Regulation Department (FMRD)
Q. Financial Stability Unit (FSU)
R. Foreign Exchange Department (FED)
S. Internal Debt Management Department (IDMD)
List II: (Mandate)
1. Conducts macro-prudential surveillance and systemic stress tests.
2. Regulates financial benchmarks for interest rates and foreign exchange markets.
3. Facilitates external trade and payments under FEMA.
4. Builds a robust institutional framework of primary dealers (PDs).
(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-3, R-1, S-4
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2018

46. Based on the recommendations of the Reorganization Committee in the early 1980s, arrange the following structural developments in the Reserve Bank of India in correct chronological order:
I. Creation of the Department of Administration and Personnel (DAP) and the Department of Accounts and Expenditure (DAE).
II. Division of DAE into Currency Management (DCM), Expenditure and Budgetary Control (DEBC), and Government and Bank Accounts (DGBA).
III. Carving out of the Department of External Investments and Operations (DEIO) from the Foreign Accounts Division.
(A) I, II, III
(B) II, I, III
(C) I, III, II
(D) III, II, I

May/June 2007

47. Which of the following statements incorrectly describes the powers and functions of the Enforcement Department of the RBI?
(A) It issues show cause notices to regulated entities providing an opportunity of being heard.
(B) It imposes monetary penalties exclusively on the individuals in-charge of the entities.
(C) A three-member Committee of Executive Directors adjudicates the matters.
(D) It takes action against Scheduled Commercial Banks under the Banking Regulation Act, 1949.

Oct/Nov 2025

48. Consider the following statements regarding the Human Resource Management Department (HRMD) of the RBI:
I. It was created in 1995 following the restructuring of the Department of Administration and Personnel Policy Department.
II. It formulates and implements policies for the recruitment, placement, and performance

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appraisal of the staff.
III. It acts as the Secretariat to the Monetary Policy Committee (MPC).
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II and III

May/June 2012

49. Which department of the RBI exercises regulatory oversight over All India Financial Institutions such as EXIM Bank, NABARD, NHB, and SIDBI?
(A) Department of Regulation (Banking)
(B) Department of Supervision
(C) Financial Inclusion and Development Department
(D) Enforcement Department

Oct/Nov 2014

50. Which department within the RBI handles policy matters incidental to bilateral currency swap arrangements and coordinates engagement with the Bank for International Settlements (BIS)?
(A) Foreign Exchange Department for regulating external trade
(B) Financial Stability Unit for systemic risk management
(C) Department of External Investments and Operations
(D) Internal Debt Management Department for government securities

May/June 2019

51. Consider the following statements regarding the compounding of FEMA contraventions by the Reserve Bank of India:
I. The Government of India has empowered the RBI to compound contraventions of all sections of FEMA, 1999, without any exceptions.
II. The compounding process provides comfort to individuals who have inadvertently contravened FEMA.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and II are correct
(D) Neither Statement I nor II is correct

NODIA

Oct/Nov 2006

52. Identify the incorrect pair regarding the departments created in the 1990s and their assigned roles during the financial sector reforms in India.
(A) Board for Financial Supervision (BFS) - Integrated supervisory mechanism for the financial system
(B) Department of Supervision (DoS) - Executive arm of the BFS
(C) Financial Institutions Cell (FIC) - Overseeing operations of financial and investment institutions
(D) Internal Debt Management Cell (IDMC) - Handling the Press Relations and educating the general public

May/June 2021

53. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:
Assertion (A): Dissemination of information in the Reserve Bank is entirely decentralized across its various regional departments.
Reason (R): The Department of Communication (DoC) actively seeks feedback from stakeholders on regulations through its website and monitors media reports.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

54. Under the legal framework of the RBI, which of the following entities is supervised by the Department of Supervision?
(A) Housing Finance Companies (HFCs)
(B) Various Rural Cooperative Banks
(C) Small Finance Banks
(D) Insurance Regulatory and Development Authority (IRDA)

May/June 2005

55. Which department of the RBI administers the provisions relating to the issuance and

cancellation of the Certificate of Registration (CoR) to Non-Banking Financial Companies (NBFCs)?
(A) Department of Regulation (Non-Banking)
(B) Financial Markets Regulation Department
(C) Department of Supervision
(D) Enforcement Department

Oct/Nov 2022

56. Match the department/unit in List-I with its corresponding publication or function in List-II.
List I: (Department/Unit)
P. Department of Economic Analysis and Policy (DEAP)
Q. Department of Statistical Analysis and Computer Services (DESACS)
R. Financial Markets Monitoring Unit
S. Division of State and Local Finances
List II: (Publication or Function)
1. Conducts the "Industrial Outlook Survey" and compiles external debt statistics.
2. Serves as a nodal unit of market intelligence for the Central Board.
3. Brings out the Report on Trend and Progress of Banking in India.
4. Carved out consistent with the 73rd and 74th constitutional amendments.
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-4, R-3, S-1

May/June 2018

57. Which of the following represents the most appropriate specific function of the Financial Markets Operations Department (FMOD)?
(A) Conducting Liquidity Adjustment Facility (LAF) operations and Open Market Operations.
(B) Administering the specific Credit Information Companies (Regulation) Act, 2005.
(C) Managing the e-Kuber system for the bank's own internal accounting needs.
(D) Conducting the Risk Based Internal Audit (RBIA) of the diverse regional offices.

Oct/Nov 2016

58. Consider the following statements regarding the Consumer Education and Protection Department (CEPD) of the RBI:
I. It frames policy guidelines for consumer protection and oversees the functioning of the Offices of RBI Ombudsman (ORBIOs).
II. It administers the Reserve Bank – Integrated Ombudsman Scheme (RB-IOS), 2021.
III. It handles complaints regarding deficiencies in customer service through the CPGRAMS portal.
IV. It issues licenses to Urban Cooperative Banks to carry on banking business.
Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only II, III and IV
(C) Only I, III and IV
(D) I, II, III and IV

May/June 2014

59. The Department of Statistics and Information Management (DSIM) maintains which of the following as the central repository of historical and current financial data?
(A) Central Repository of Information on Large Credit (CRILC)
(B) Reserve Bank's Data Warehouse
(C) Centralized Public Grievance Redress and Monitoring System (CPGRAMS)
(D) Application Tracking System (ATS)

Oct/Nov 2007

60. Which department of the RBI is the designated knowledge centre providing research inputs and publishing the "Handbook of Statistics on the Indian Economy"?
(A) Department of Economic and Policy Research
(B) Department of Statistics and Information Management
(C) Financial Markets Operations Department
(D) Department of External Investments and Operations

May/June 2025

61. Which department of the RBI prepares the broad risk monitoring framework based on an Enterprise-wide Risk Management System?
(A) Financial Stability Unit
(B) Inspection Department
(C) Risk Monitoring Department
(D) Department of Economic and Policy Research

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Oct/Nov 2019

62. According to Section 8 of the RBI Act, 1934, which of the following correctly describes the constitution of the Central Board of Directors?
(A) A Governor and not more than four Deputy Governors appointed by the Central Government.
(B) Exactly five Non-Official Directors nominated by the Central Government.
(C) Fifty directors nominated by the Central Government to represent the industry.
(D) Ten directors to be elected directly by the shareholders of the Imperial Bank.

May/June 2009

63. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:
Assertion (A): The Legal Department manages litigation on behalf of the Reserve Bank and the DICGC.
Reason (R): The Legal Department acts as the Secretariat to the First Appellate Authority of the Reserve Bank under the Right to Information Act, 2005.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

64. Consider the following statements regarding the penal interest levied by the RBI on scheduled banks for falling short of the prescribed minimum average daily balance:
I. For the first fortnight of shortfall, the penal interest is three per cent above the bank rate.
II. If the shortfall continues in the next fortnight, the penal interest is five per cent above the bank rate.
III. The RBI is obligated to automatically liquidate any defaulting bank.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II and III

May/June 2010

65. Under which specific sections of the Right to Information Act, 2005, are certain categories of information held by the RBI exempt from disclosure?
(A) Sections 4 and 5
(B) Sections 8 and 9
(C) Sections 10 and 11
(D) Sections 22 and 23

Oct/Nov 2024

66. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:
Assertion (A): The Reserve Bank is required to make public from time to time the standard rate at which it is prepared to buy or re-discount bills.
Reason (R): The term 'standard' was substituted for the word 'minimum' to allow the Bank to rediscount agricultural paper at concessional rates below the standard rate.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

67. Consider the following statements regarding the Internal Debt Management Department (IDMD):
I. It prepares the issuance calendar in consultation with the Government of India.
II. It monitors the cash balances of the Central and State Governments.
III. It interacts with the secondary market for purchasing securities for State Governments.
IV. It enters into agreements with Primary Dealers to conduct underwriting auctions.
Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only II, III and IV
(C) Only I, III and IV

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(D) I, II, III and IV

Oct/Nov 2005

68. According to Chapter II of the RBI Act, 1934, how many members are appointed by the Central Government to each Local Board?
(A) Three
(B) Four
(C) Five
(D) Six

May/June 2020

69. Match the Chapters and Schedules of the RBI Act, 1934, in List-I with their corresponding subject matter in List-II.
List I: (Chapter/Schedule)
P. Chapter II
Q. Chapter III
R. Chapter V
S. First Schedule
List II: (Subject Matter)
1. Penalties in case of non-compliance.
2. Central Banking Functions (Issue of notes, cash reserves).
3. Specifies the four geographical areas for Local Boards.
4. Incorporation, Capital, Management, and Business of the Bank.
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-1, Q-2, R-4, S-3

Oct/Nov 2015

70. Which unit within the RBI undertakes preventive vigilance and anti-corruption measures as defined by the Central Vigilance Commission?
(A) Enforcement Department
(B) Inspection Department
(C) Central Vigilance Cell
(D) Human Resource Management Department

May/June 2013

71. Consider the following statements regarding the powers vested in the Reserve Bank of India:
I. The Bank derives powers for licensing and inspecting commercial banks under the Banking Regulation Act.
II. The Bank has statutory powers to amalgamate weak banks.
III. The Bank focuses solely on monetary stability and holds no powers to facilitate flexibility in the credit system.
IV. The Bank develops monetary policy instruments for containing inflationary pressures.
Which of the above statement(s) is/are correct?
(A) Only I, II and IV
(B) Only II, III and IV
(C) Only I, III and IV
(D) I, II, III and IV

Oct/Nov 2021

72. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:
Assertion (A): The Premises Department is solely focused on the financial viability of acquiring new real estate for the Reserve Bank.
Reason (R): The current thrust areas of the Premises Department include promoting environmental consciousness and conserving resources like energy and water.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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May/June 2024

73. Which of the following statements correctly identifies the contents of the Second Schedule to the RBI Act, 1934?
(A) It specifies the geographical areas for the constitution of Local Boards.
(B) It lists the penalties imposed for non-compliance.
(C) It details the contribution to the National Rural Credit Fund.
(D) It lists the names of all Scheduled Banks.

Oct/Nov 2008

74. What is the title of the RBI initiative aimed at disseminating information regarding banking concepts to target groups such as school children and the rural poor?
(A) Project Banking Chintan
(B) Project Cyber Hygiene

(C) Project Financial Literacy
(D) Project RB-IOS

May/June 2006

75. Consider the following statements regarding the financial provisions under Chapter IV of the RBI Act:
I. The Central Government shall transfer to the Bank rupee securities of the value of five crores.
II. These rupee securities are to be allocated to the Reserve Fund.
III. The Bank must contribute a mandatory sum of ten crores annually to the National Housing Credit Fund.
IV. The Bank shall transmit to the Central Government a weekly account of the Issue and Banking Departments.
Which of the above statement(s) is/are correct?
(A) Only I, II and IV
(B) Only II, III and IV
(C) Only I, III and IV
(D) I, II, III and IV

Oct/Nov 2017

76. Consider the following statements regarding the International Department of the RBI:
I. It frames the Bank's views on international economic cooperation.
II. It is responsible for relations with BRICS, SAARCFINANCE, and the WTO.
III. It conducts Liquidity Adjustment Facility operations in the domestic market.
IV. It manages exposure visits for delegates of foreign institutions.
V. It prepares research notes on international economic cooperation.
Which of the above statement(s) is/are correct?
(A) Only I, II, III and IV
(B) Only I, II, IV and V
(C) Only II, III, IV and V
(D) I, II, III, IV and V

May/June 2008

77. Which specific chapter of the RBI Act, 1934, grants the Bank the power to register and regulate non-banking institutions that receive deposits?
(A) Chapter II
(B) Chapter III
(C) Chapter III A
(D) Chapter III B

Oct/Nov 2013

78. Which department is primarily mandated to provide administrative support for the top management of the RBI and arrange sideline meetings with foreign delegations?
(A) International Department
(B) Department of Communication
(C) Foreign Exchange Department
(D) Secretary's Department

May/June 2015

79. Which of the following persons is NOT explicitly mentioned in the RBI Act as being subject to removal from office by the Central Government?
(A) The Governor
(B) The Chief Accounting Officer
(C) A Deputy Governor
(D) Any member of a Local Board

Oct/Nov 2012

80. In the context of the Reserve Bank of India Act, 1934, which of the following accurately defines the scope of Chapter III A?
(A) It deals with the central banking functions including the right to issue bank notes.
(B) It deals with the prohibition of acceptance of deposits by unincorporated bodies.
(C) It deals with the provisions relating to non-banking institutions receiving deposits.
(D) It deals with the collection and furnishing of credit information.

May/June 2011

81. Consider the following statements regarding the obligations of the RBI as banker to the Government:
I. The Bank is obliged to accept monies for the account of the Central Government.
II. The Bank accepts monies for the account of State Governments that manage their own finances.
III. The Bank is required to manage the public debt of these Governments.
IV. The Governments are obligated to pay an administered interest rate on their deposits to the RBI.
V. The terms for undertaking government business are to be mutually settled.
Which of the above statement(s) is/are correct?
(A) Only I, II, III and V
(B) Only I, II, IV and V
(C) Only II, III, IV and V

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(D) I, II, III, IV and V

Oct/Nov 2020

82. Which department of the RBI is responsible for translating statutory documents into Hindi and publishing the magazine 'Banking Chintan Anuchintan'?
(A) Rajbhasha Department
(B) Department of Communication
(C) Secretary's Department
(D) Human Resource Management Department

May/June 2022

83. On the RBI website, under which caption are policy rates (such as Repo rate and Bank rate) and reserve ratios (CRR/SLR) prominently displayed?
(A) Financial markets watch
(B) Market trends
(C) What is new?
(D) Current rates

Oct/Nov 2023

84. The RBI Act structurally separates the banking and currency issuance functions. Match the operational aspects in List-I with their statutory provisions in List-II.
List I: (Operational Aspect)
P. Sole authority for issue of currency in India
Q. Keeping assets of the Issue Department distinct
R. Maintenance of average daily balance by scheduled banks
S. Definition of average daily balance
List II: (Statutory Provision)
1. Section 22
2. Issue Department not subject to Banking Department liabilities
3. Return referred to in sub-section (2) of Section 42
4. Average of balances held at the close of business on each day of the fortnight
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-1, Q-3, R-2, S-4
(D) P-3, Q-4, R-1, S-2

May/June 2016

85. Consider the following funds established under the Reserve Bank of India Act:
I. National Rural Credit (Long Term Operations) Fund
II. National Rural Credit (Stabilization) Fund
III. National Industrial Credit (Long Term Operations) Fund
IV. National Housing Credit (Long Term Operations) Fund
V. National Education Credit Fund
Which of the above fund(s) is/are explicitly mentioned in the Act?
(A) Only I, II, III and V
(B) Only I, II, III and IV
(C) Only II, III, IV and V
(D) I, II, III, IV and V

Oct/Nov 2009

86. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:
Assertion (A): The Monetary Policy Department (MPD) plays a key role in implementing monetary policy by assessing liquidity conditions.
Reason (R): MPD participates in the Financial Markets Committee (FMC) which meets daily to guide financial markets operations.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

87. According to Section 7 of the Reserve Bank of India Act, 1934, under what circumstances can the Central Government give directions to the Bank?
(A) Whenever the Governor of the Reserve Bank requests a change in the Repo Rate.
(B) After consultation with the Governor of the Bank, when it is considered necessary in the public interest.
(C) Only during a formal declaration of financial emergency under Article 360 of the Constitution.
(D) Whenever the commercial banks fail to meet their priority sector lending targets.

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Oct/Nov 2018

88. Under which main section of the RBI's website can a researcher find comprehensively organized information regarding master circulars, master directions, and draft notifications?
(A) Current rates
(B) Notifications
(C) Publications
(D) Press releases

May/June 2007

89. If the Reserve Bank fails to carry out its statutory obligations, what is the Central Government legally empowered to do under the RBI Act?
(A) Initiate corporate insolvency resolution proceedings through the National Company Law Tribunal.
(B) Declare the Central Board to be superseded and entrust the affairs to another agency.
(C) Merge the Reserve Bank with the State Bank of India to consolidate the national financial architecture.
(D) Transfer management directly to the International Monetary Fund under a structural adjustment program.

Oct/Nov 2025

90. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer according to the options given below:
Assertion (A): The Reserve Bank of India Act, 1934, originally consisted of 61 sections, but over time, sections 59 to 61 were repealed.
Reason (R): The broad coverage of the Act has been modified by subsequent legislation, including the Finance Act 2022.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

91. Which conceptual risk within the financial ecosystem does Chapter III C of the Reserve Bank of India Act, 1934, aim to mitigate?
(A) Failure of banks to maintain the CRR.
(B) Risk associated with the acceptance of deposits by unincorporated bodies.
(C) Credit risk of large industrial houses defaulting on loans.
(D) Operational risk of failure in the RTGS system.

Oct/Nov 2014

92. Match the historical developments concerning agricultural finance in List-I with their specific features in List-II.
List I: (Historical Legislative Development)
P. Hilton Young Commission (1926)
Q. 1927 and 1928 Bills
R. Central Banking Enquiry Committee (1931)
S. 1933 Bill (Final Stage)
List II: (Feature)
1. Suggested the grant of direct accommodation to agriculturists.
2. Recommended that the Central Bank handle agricultural credit in a separate department.
3. Recognized the need to empower the Bank to grant accommodation to finance current transactions.
4. Contained provisions for rediscounting bills for seasonal agricultural operations.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-2, R-3, S-4

May/June 2019

93. Consider the following conditions for accommodation provided by the RBI to banks in the form of rediscounts:
I. It can rediscount bills of exchange arising out of bona fide commercial transactions.
II. The instruments must bear two or more good signatures, including that of a scheduled bank.
III. The instruments must mature within 180 days of the date of purchase or rediscount.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II and III

Oct/Nov 2006

94. Which of the following statements incorrectly describes a provision found within Chapter IV of the RBI Act?

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(A) It deals with the allocation of Surplus Profit.
(B) It deals with the contribution to the National Rural Credit Fund.
(C) It addresses the publication of the Bank Rate.
(D) It outlines the penalties to be imposed on banks for non-compliance.

May/June 2021

95. Section 55 of the original RBI Act was intended to address which segment of the Indian money market?
(A) Linking indigenous bankers to the Reserve Bank's scheme of rediscounts.
(B) Mandating the nationalization of private sector banks.
(C) Establishing the Board for Financial Supervision.
(D) Outlining the framework for cyber security in cooperative societies.

Oct/Nov 2010

96. Consider the following statements regarding the instruments of credit control:
I. The LAF-Repo rate, Bank Rate, and Open Market Operations are primary instruments of credit control.
II. Open Market Operations involve the buying or selling of securities to expand or contract credit.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and II are correct
(D) Neither Statement I nor II is correct

May/June 2005

97. Which of the following statements correctly identifies the legal provision regarding the liquidation of the Reserve Bank of India?
(A) The Bank shall be placed in liquidation only by order of the Central Government.
(B) The Bank can be placed in liquidation through a resolution passed by shareholders.
(C) The Bank is subject to automatic liquidation if its Reserve Fund falls below five crores.
(D) The Bank can be liquidated by the Supreme Court upon a petition by the BFS.

Oct/Nov 2022

98. Under the original 1934 Act, the exchange obligation of the RBI required the Bank to preserve the ruling exchange parity of the rupee with which of the following?
(A) The US Dollar
(B) Pound Sterling
(C) Gold bullion
(D) A basket of international currencies

May/June 2018

99. During the legislative debate for the RBI Act, what was a primary justification provided for requiring the Bank to create a special Agricultural Credit Department?
(A) The failure of the Travancore National Bank.
(B) The need to integrate with the World Bank.
(C) The directive from the International Monetary Fund.
(D) The analogy of the Commonwealth Bank of Australia.

Oct/Nov 2016

100. The RBI collects credit information under Section 45C of the RBI Act. Which of the following is an exception to the publication of such information?
(A) The Bank cannot publish the data in a consolidated form.
(B) The Bank must seek prior approval from the Supreme Court.
(C) The Bank can only publish information if the borrowing company provides written consent.
(D) The publication shall not disclose the names of the banking companies which submitted the information.

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ANSWERS

1. (D) To regulate note issue, maintain reserves for monetary stability, and operate the currency and credit system.
The Preamble of the Reserve Bank of India Act, 1934, defines the foundational purpose of the central bank. It mandates the regulation of note issue and the maintenance of reserves to ensure monetary stability across the country. Additionally, the institution is tasked with operating the nation's currency and credit system to the advantage of the overall economy.

2. (C) The achievement of a reasonable degree of fiscal responsibility and control over the fiscal deficit.
Effective separation of public debt management from monetary policy requires specific economic conditions. The Tarapore Committee emphasized that achieving a reasonable degree of fiscal responsibility and controlling the fiscal deficit are essential precursors. This ensures that the central bank's monetary operations are not compromised by the government's borrowing requirements, allowing for independent and stable policy implementation.

3. (C) "Home Charges" payable in Sterling for obligations such as interest on debt and pensions
During the early twentieth century, the Indian exchange rate system was heavily influenced by colonial fiscal requirements. The British Government prioritized facilitating remittances for "Home Charges," which included sterling-denominated obligations like interest on debt and pensions. This focus often drew criticism as it appeared to subordinate India's broader economic interests to the administrative and financial needs of the ruling administration.

4. (C) Department of Research and Statistics (DRS)
In 1945, the Reserve Bank underwent significant organizational restructuring to enhance its analytical capabilities. The existing Statistical and Research Section was upgraded to form the Department of Research and Statistics. This dedicated department was established to provide systematic research, data analysis, and technical advice to the Government, supporting informed policy decisions regarding the nation's financial and economic health.

5. (B) RTGS - System primarily meant for retail micro-transactions below Rs. 2 lakh
The Real Time Gross Settlement system is designed for high-value transactions, typically involving amounts of two lakh rupees or more. Describing it as a system meant for retail micro-transactions below this threshold is inaccurate. In contrast, mechanisms like Hundis have long historical roots, MICR facilitates efficient cheque processing, and AEPS utilizes biometric authentication through Aadhaar-seeded bank accounts for transactions.

6. (B) The operations of the financial system were required to be consistent with the priorities of Five-Year Plans.
The commencement of the planning era in 1951 fundamentally altered the role of the Indian financial sector. Banking policies were realigned to ensure that the operations of the financial system remained consistent with the development priorities outlined in the Five-Year Plans. This integration aimed to channel credit toward strategic sectors, supporting the government's overarching goals for national economic growth.

7. (B) The note issue function and acting as a banker to the government
Historically, central banks evolved from institutions that initially performed a mix of commercial and public functions. Before becoming specialized entities focused on modern monetary policy, their primary roles typically included acting as the banker to the government and managing the note issue. These traditional functions provided the foundation for their eventual transition into specialized regulators of the banking system.

8. (A) Only I, II, III and IV
In the early 1950s, the Reserve Bank utilized automatic monetization through ad hoc Treasury

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bills to finance government debt whenever balances fell low. The 1994 Supplemental Agreement introduced limits on this practice, which was eventually replaced by Ways and Means Advances in 1997. Currently, the Reserve Bank is prohibited from participating in primary auctions of government securities under the FRBM Act.

9. (B) The Local Boards
The original statutes of the Reserve Bank of India Act provided for the establishment of Local Boards to ensure regional representation. These boards were mandated to represent specific geographical divisions across the country. Their primary responsibility involved advising the Central Board on matters referred to them, thereby incorporating diverse regional perspectives into the central bank's broader decision-making processes.

10. (A) P-2, Q-4, R-1, S-3
Several specialized financial institutions were established to support sectoral growth. The Industrial Finance Corporation of India was founded in 1948, followed by the Agricultural Refinance Corporation in 1963. The Unit Trust of India began operations in 1964 to promote retail investment. Finally, the National Bank for Agriculture and Rural Development was created in 1982 to focus on rural and agricultural development.

11. (D) Over-lending to small-scale industries and agricultural sectors resulting in massive non-performing assets.
The philosophy of Social Control was introduced to address structural imbalances in the banking sector, such as the concentration of credit in urban areas and large industrial houses. It also aimed to break the nexus between banks and industrial concerns. Over-lending to agriculture or small-scale industries was not a cause; rather, these sectors were neglected, necessitating the policy shift.

12. (C) The Bill introduced in 1927 based on its recommendations was immediately passed into law.
The Hilton Young Commission recommended establishing the Reserve Bank to unify monetary and credit control. While it viewed a central bank as necessary for expanding banking facilities, the 1927 Bill based on these suggestions was not immediately passed. Instead, it faced significant legislative hurdles and political disagreements, delaying the formal creation of the central bank until the mid-1930s.

13. (D) Assertion (A) is false, but Reason (R) is true.
The Fiscal Responsibility and Budget Management Act of 2003 actually aimed to reduce the central bank's direct involvement in primary government debt. Consequently, the Reserve Bank's participation in primary auctions of government securities was discontinued starting April 1, 2006. The assertion claiming the Act allowed free participation to lower liquidity ratios is incorrect, although the stated reason is accurate.

14. (A) Only Statement I is correct
The Real Time Gross Settlement system was made available round-the-clock, every day of the year, starting December 14, 2020. While there is a minimum transaction limit of two lakh rupees for this system, there is no specified upper ceiling limit for transactions. Therefore, only the statement regarding its 24x7 availability is correct, as the second statement contains an inaccuracy.

15. (D) Balance of Payments Division
To meet the statistical requirements and international obligations of the International Monetary Fund, the Reserve Bank established the Balance of Payments Division in 1948. This unit was created within the Department of Research and Statistics. Its primary function was to systematically compile and analyze data regarding India's international economic transactions, ensuring compliance with global reporting standards and providing vital economic data.

16. (A) General Bank of Bengal and Bihar
In 1773, an early attempt was made to establish a banking institution with modern central banking features in India. This led to the creation of the General Bank of Bengal and Bihar. Although short-lived, this institution represented an initial effort to centralize banking functions and manage government revenue, predating the more formal

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structures that emerged in the nineteenth and twentieth centuries.

17. (A) The Banking Companies Act, 1949
The realization that the Indian Companies Act was insufficient to regulate the unique risks of the banking sector led to specialized legislation. The Banking Companies Act, 1949, later renamed the Banking Regulation Act, formalized comprehensive provisions for supervising and regulating banks. This legal framework was designed to prevent unhealthy financial practices and protect the interests of depositors across the country.

18. (A) III, I, II, IV
The evolution of Indian banking began with the establishment of the Bank of Calcutta in 1806. Later, the Paper Currency Act of 1861 gave the Government the sole right to issue notes. The Imperial Bank of India was formed in 1921 through the merger of Presidency Banks. Finally, the Reserve Bank of India Act was enacted in 1934 to establish the central bank.

19. (D) Liquidity Adjustment Facility (LAF)
To maintain operational independence and insulate monetary policy from the fluctuations of internal debt management, the Reserve Bank utilizes the Liquidity Adjustment Facility. This tool allows the bank to manage short-term liquidity through repo and reverse repo operations. By effectively steering the overnight interest rate, the bank can achieve its monetary objectives without being constrained by the government's immediate financing needs.

20. (B) Only I, II and IV
The RBI's cyber security framework requires banks to implement a board-approved policy separate from their IT policy and establish a Security Operations Centre for surveillance. Furthermore, banks must report all cyber security incidents to the regulator. However, the framework does not eliminate IT examinations during risk-based supervision; rather, it emphasizes their importance as a critical component of the overall assessment.

21. (C) It recommended the immediate closure of all primary agricultural cooperative societies.
The All-India Rural Credit Survey of 1951 highlighted significant weaknesses in the banking structure and the need for increased credit flow to neglected sectors like agriculture. It encouraged the extension of banking facilities to semi-urban areas. However, it did not recommend the closure of primary agricultural cooperative societies; instead, it sought to strengthen and integrate them into a more effective credit system.

22. (B) Regulation of non-banking financial companies
The original statutes of the Reserve Bank focused on traditional central banking roles such as issuing currency, acting as a banker to the government, and managing public debt. It also served as the banker to commercial banks. The regulation of non-banking financial companies was not part of its core functions at its inception but was added through subsequent legislative amendments.

23. (D) Saraf Committee - Use of information and communication technology for payment systems
The Saraf Committee was specifically constituted to address the technological transformation of the Indian banking system. Its primary area of focus involved the use of information and communication technology in payment systems. Other commissions, like the Hilton Young or Chamberlain, were focused on currency and finance, whereas the Saraf Committee addressed modern infrastructure needs to enhance financial sector efficiency.

24. (D) The Agriculture Credit Department (ACD)
In 1935, the Reserve Bank established the Agriculture Credit Department to fulfill its statutory obligation toward the rural economy. This department was designed to study agricultural credit problems and coordinate the activities of various agencies involved in rural finance. It also aimed to create a link between indigenous bankers and the modern banking system, fostering a more integrated financial environment.

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25. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
During the pre-reform era, expansionary fiscal policies in India were frequently supported by automatic monetization. This occurred because the government could create ad hoc Treasury bills whenever its balances with the central bank dropped below a specific limit. Consequently, this short-term financing mechanism transformed into a permanent funding source, leading to a significant increase in the money supply and inflation.

26. (D) It performed the functions of banker to government and to some extent bankers' bank.
The Imperial Bank of India, formed in 1921, occupied a unique position in the financial system. While it operated as a commercial bank, it was also entrusted with certain central banking responsibilities. Specifically, it performed the functions of banker to the government and acted as a bankers' bank to some extent, though it lacked the sole authority to issue currency notes.

27. (A) Sir C.D. Deshmukh
Sir C.D. Deshmukh served as the first Indian Governor of the Reserve Bank, holding office from August 1943 to June 1949. His tenure was marked by the significant challenges of the post-war period and the partition of India. He played a crucial role in maintaining financial stability and ensuring a smooth transition of the central bank's operations during national independence.

28. (B) P-2, Q-1, R-3, S-4
The Reserve Bank promoted several institutions to strengthen financial markets. The Discount and Finance House of India was created in 1988 for the government securities market. The Clearing Corporation of India was formed to upgrade settlement processes. The Banking Codes and Standards Board established codes for customer treatment, while the National Payment Corporation was set up as an umbrella for retail payments.

29. (C) As a shareholders' bank with the Central Government having powers to supersede the Central Board
To ensure independence from political influence, the Reserve Bank was initially constituted as a shareholders' bank. Under the 1934 Act, the institution was owned by private investors, although the Central Government retained specific powers to oversee its operations. This included the authority to supersede the Central Board of Directors under extreme circumstances, balancing private ownership with public interest and accountability.

30. (C) Only I and III
The Aadhaar Payment Bridge System is instrumental in managing bulk government benefit transfers and is linked to the Public Financial Management System. Furthermore, RuPay cards have seen significant growth due to their inclusion in financial inclusion initiatives like Jan Dhan accounts. However, the Aadhaar Enabled Payment System is designed to be interoperable, allowing customers to access services through any bank's business correspondent.

31. (C) Both Statement I and II are correct
The Board for Financial Supervision was established to provide focused oversight of the financial system. It is chaired by the Governor of the Reserve Bank and includes four non-official members from the Central Board. Additionally, a Deputy Governor, typically the one in charge of regulation and supervision, serves as the Vice-Chairman. Both statements accurately reflect the composition and leadership of the Board.

32. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Under the Payment and Settlement Systems Act of 2007, the Reserve Bank holds the exclusive authority to regulate and supervise payment systems in India. No other entity is permitted to commence or operate such a system without explicit authorization from the central bank. This legal framework ensures the safety, efficiency, and integrity of the nation's financial transactions and settlement processes.

33. (A) P-2, Q-4, R-1, S-3
The restructuring of the Department of Accounts and Expenditure resulted in several specialized units. The Department of Currency Management handles note availability and anti-counterfeiting. The Department of Expenditure and Budgetary

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Control manages internal budgets and staff loans. The Department of Government and Bank Accounts maintains state accounts. Finally, the Department of External Investments and Operations manages foreign currency assets and IMF transactions.

34. (D) Managing the Government's debt in a risk efficient and cost effective manner.
The Financial Inclusion and Development Department is primarily concerned with policy formulation to strengthen credit flow to priority sectors, including self-help groups and minority communities. It also oversees institutional arrangements like the Lead Bank Scheme. Managing the government's debt is not a function of this department; rather, that responsibility lies with the Internal Debt Management Department to ensure cost-effectiveness.

35. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
State and District Central Co-operative Banks are subject to a dual control mechanism. The Reserve Bank regulates their banking operations under the Banking Regulation Act to ensure financial stability. Simultaneously, their incorporation, management, and administrative matters are overseen by the Registrar of Cooperative Societies. This arrangement necessitates coordination between the central bank and state authorities to ensure effective supervision of these entities.

36. (B) P-2, Q-1, R-4, S-3
Different departments handle specific administrative and operational tasks within the Reserve Bank. The Human Resource Management Department oversees staff suggestions and placements. The Inspection Department provides risk assurance through internal audits. The Legal Department represents the bank before authorities like the Central Information Commission. The Premises Department manages the capital budget for office space and regional office infrastructure across the country.

37. (A) To extend banking activities geographically to under-banked rural areas and functionally to priority sectors.
The nationalization of 14 major commercial banks in 1969 was driven by the objective of making banking more inclusive. It aimed to expand the geographical reach of banking services into under-banked rural regions and to ensure that credit was functionally directed toward priority sectors. This move sought to align the banking system with social and developmental goals of the nation.

38. (D) Department of Government and Bank Accounts
The Department of Government and Bank Accounts is responsible for maintaining the principal deposit accounts of State Governments. It also plays a critical role in monitoring the integration of financial systems to facilitate the efficient collection of e-receipts. By managing these accounts and overseeing the accounting processes, the department ensures the smooth functioning of the government's financial operations and transactions.

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39. (D) XBRL
The Department of Statistics and Information Management utilizes a standardized platform known as XBRL for receiving and validating financial data from banks. This Extensible Business Reporting Language allows for the efficient and accurate transfer of complex financial information. By using this technology, the central bank can better analyze data trends and ensure the integrity of the information used for regulatory oversight.

40. (B) Only I, II and IV
The Monetary Policy Department, renamed from the Credit Planning Cell in 1998, plays a vital role in policy formulation. Its senior officials are members of the Monetary Policy Committee, and it has been instrumental in transforming the call money market. However, overseeing matters related to the prevention of sexual harassment is an administrative function of the human resources department, not MPD.

41. (A) Only I and II
The Inspection Department conducts Risk Based Internal Audits to provide an objective opinion on risk management within the Reserve Bank. As part of this process, Information System Audits are performed to evaluate the effectiveness of IT controls. However, Control Self-Assessment Audits are typically internal processes conducted

by the respective business units themselves, rather than being exclusively handled by external firms.

42. (C) Urban Banks Department (UBD) - Statutory and developmental work relating to urban cooperative banks
The Urban Banks Department was established to handle both the statutory and developmental aspects of urban cooperative banks. While other departments might focus on export credit or public debt, this specific department ensures that urban cooperatives operate within the regulatory framework while also fostering their growth. This focus reflects the need for specialized oversight of different segments within the broader financial system.

43. (B) Department of Information Technology
The Department of Information Technology is responsible for formulating the broad policy for the Reserve Bank's IT architecture. It oversees specialized subsidiaries like IFTAS and ReBIT to maintain a secure and robust "Cyber Hygiene Culture." By coordinating these efforts, the department ensures that the central bank and the wider financial system are protected against evolving cyber threats and technical vulnerabilities.

44. (D) Department of Currency Management
The Department of Currency Management is tasked with formulating policies regarding the exchange of soiled and mutilated currency notes. It also monitors the quality of customer service provided by banks in this area to ensure public convenience. By setting these standards, the department helps maintain the integrity of the physical currency in circulation and ensures that the note exchange process is efficient.

45. (A) P-2, Q-1, R-3, S-4
Various departments manage distinct regulatory and operational areas. The Financial Markets Regulation Department oversees interest rate and forex benchmarks. The Financial Stability Unit conducts macro-prudential surveillance and stress tests. The Foreign Exchange Department facilitates external trade under FEMA. Finally, the Internal Debt Management Department is responsible for building a robust framework for primary dealers to support the government securities market.

46. (A) I, II, III
Structural reorganization in the Reserve Bank followed a logical progression based on committee recommendations. First, the Departments of Administration and Personnel and Accounts and Expenditure were created. Subsequently, the Department of Accounts and Expenditure was split into specialized units for currency, expenditure, and government accounts. Finally, the Department of External Investments and Operations was established by carving it out from the foreign accounts.

47. (B) It imposes monetary penalties exclusively on the individuals in-charge of the entities.
The Enforcement Department is empowered to take action against scheduled commercial banks under the Banking Regulation Act by issuing show cause notices. While a committee of Executive Directors adjudicates these matters, the department typically imposes monetary penalties on the regulated entities themselves. The statement that it imposes penalties exclusively on the individuals in charge of these entities is an incorrect representation.

48. (A) Only I and II
The Human Resource Management Department was established in 1995 to manage staff-related policies, including recruitment, placement, and performance appraisals. It focuses on the internal administration and development of the bank's workforce. However, the department does not act as the Secretariat to the Monetary Policy Committee; that specific role is performed by another unit focused on economic policy and research matters.

49. (A) Department of Regulation (Banking)
The Department of Regulation (Banking) is responsible for the regulatory oversight of All India Financial Institutions. This includes major entities like EXIM Bank, NABARD, NHB, and SIDBI. By providing this oversight, the department ensures that these specialized institutions operate within a sound policy framework, supporting their specific roles in areas such as export-import finance, rural development, and housing finance.

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50. (C) Department of External Investments and Operations
The Department of External Investments and Operations handles policy matters related to bilateral currency swap arrangements. It also serves as the primary unit for coordinating the Reserve Bank's engagement with the Bank for International Settlements. By managing these international financial relationships, the department ensures effective cooperation with global central banking bodies and supports the management of the nation's foreign exchange assets.

51. (B) Only Statement II is correct
The compounding of FEMA contraventions is a process that offers a way for individuals or entities to settle unintentional violations of foreign exchange regulations. While this provides significant comfort to those who have inadvertently broken the rules, it is not an absolute power. The Reserve Bank is not empowered to compound all sections of FEMA; certain serious contraventions remain outside this process.

52. (D) Internal Debt Management Cell (IDMC) - Handling the Press Relations and educating the general public
During the 1990s reforms, several new units were established to address specific needs. The Board for Financial Supervision and the Department of Supervision focused on oversight, while the Financial Institutions Cell managed investment institutions. However, the Internal Debt Management Cell was created to handle government debt operations and market development, not to manage press relations or general public education.

53. (D) Assertion (A) is false, but Reason (R) is true.
Information dissemination within the Reserve Bank is not entirely decentralized; instead, it is coordinated through the Department of Communication. This department is responsible for managing the bank's public image, seeking stakeholder feedback on regulations, and monitoring media reports. While the assertion suggesting decentralization is false, the reason describing the active role of the Department of Communication is an accurate description.

54. (C) Small Finance Banks
The Department of Supervision is responsible for the direct oversight of several types of financial entities to ensure their stability and compliance. This includes the supervision of Small Finance Banks. While other bodies might oversee insurance companies or rural cooperative banks, the Department of Supervision focuses on these commercial and specialized banking entities within its primary regulatory and supervisory mandate.

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55. (A) Department of Regulation (Non-Banking)
The Department of Regulation (Non-Banking) administers the provisions related to the issuance and cancellation of the Certificate of Registration for Non-Banking Financial Companies. It formulates the regulatory framework that governs these entities, ensuring they operate within the prescribed legal and financial boundaries. This oversight is crucial for maintaining the stability of the non-banking financial sector and protecting investors.

56. (A) P-3, Q-1, R-2, S-4
Several departments produce key reports and perform specialized tasks. The Department of Economic Analysis and Policy publishes the Report on Trend and Progress of Banking. The Department of Statistical Analysis and Computer Services conducts the Industrial Outlook Survey. The Financial Markets Monitoring Unit provides market intelligence. Finally, the Division of State and Local Finances focuses on fiscal matters following constitutional amendments.

57. (A) Conducting Liquidity Adjustment Facility (LAF) operations and Open Market Operations.
The Financial Markets Operations Department is primarily responsible for executing the central bank's market-based monetary policy tools. Its specific functions include conducting Liquidity Adjustment Facility operations, such as repo and reverse repo auctions, as well as Open Market Operations. These activities are essential for managing liquidity in the banking system and influencing short-term interest rates to achieve monetary objectives.

58. (A) Only I, II and III
The Consumer Education and Protection Department frames guidelines for consumer

protection and oversees the RBI Ombudsman offices. It also administers the integrated ombudsman scheme and handles customer service complaints through the CPGRAMS portal. However, issuing banking licenses to Urban Cooperative Banks is a regulatory function performed by the Department of Regulation, rather than a consumer protection or education task.

59. (B) Reserve Bank's Data Warehouse
The Department of Statistics and Information Management maintains the Reserve Bank's Data Warehouse as its central repository for both historical and current financial data. This facility provides a comprehensive and organized storage system that supports data-driven research and policy analysis. By centralizing this information, the bank can ensure that accurate data is available for regulatory oversight and economic decision-making.

60. (A) Department of Economic and Policy Research
The Department of Economic and Policy Research serves as the designated knowledge centre within the Reserve Bank. It provides critical research inputs and is responsible for publishing the "Handbook of Statistics on the Indian Economy." This publication is a vital resource for researchers and policymakers, offering a comprehensive and long-term view of various economic indicators and financial data in India.

61. (C) Risk Monitoring Department
The Risk Monitoring Department is tasked with preparing the broad risk monitoring framework for the Reserve Bank. This framework is based on an Enterprise-wide Risk Management System designed to identify, assess, and mitigate various risks faced by the institution. By implementing this system, the department ensures that the bank's operations are conducted within a robust and secure risk management environment.

62. (A) A Governor and not more than four Deputy Governors appointed by the Central Government.
Section 8 of the Reserve Bank of India Act, 1934, defines the composition of the Central Board of Directors. It specifies that the board must include a Governor and not more than four Deputy Governors, all of whom are appointed by the Central Government. This structure ensures that the top leadership of the central bank is formally established under statutory law.

63. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The Legal Department performs several critical functions, including managing litigation for the Reserve Bank and the Deposit Insurance and Credit Guarantee Corporation. It also serves as the Secretariat to the First Appellate Authority under the Right to Information Act. While both the assertion and the reason are true, they describe different sets of responsibilities and do not have a causal link.

64. (A) Only I and II
Scheduled banks that fail to maintain the prescribed minimum average daily balance are subject to penal interest. For the first fortnight of a shortfall, the penalty is three per cent above the bank rate. If the deficiency continues into the subsequent fortnight, the rate increases to five per cent above the bank rate. There is no provision for automatic liquidation of banks.

65. (B) Sections 8 and 9
Under the Right to Information Act of 2005, specific categories of information are protected from public disclosure. For the Reserve Bank, these exemptions are primarily found in Sections 8 and 9 of the Act. These provisions allow the bank to withhold certain sensitive information, such as data that could affect national economic interests or information held in a fiduciary capacity.

66. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Reserve Bank is required to publish the standard rate at which it rediscounts bills. Historically, the term 'standard' was used to replace 'minimum' to provide the bank with the flexibility to offer concessional rates for specific purposes, such as financing agricultural operations. This ensures that the bank can influence credit costs while supporting strategic sectors through differentiated interest rates.

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67. (D) I, II, III and IV
The Internal Debt Management Department performs several functions, including preparing the issuance calendar for government debt and monitoring the cash balances of both central and state governments. It also manages the secondary market purchase of securities for state governments and coordinates with primary dealers for underwriting auctions. All these activities are essential for the efficient management of national public debt.

68. (C) Five
According to Chapter II of the Reserve Bank of India Act, 1934, the Central Government is responsible for appointing members to the Local Boards. Each of these boards, representing different geographical regions, consists of five members. These appointments are intended to ensure that the central bank receives diverse regional input and advice on its various operations and policy decisions.

69. (A) P-4, Q-2, R-1, S-3
The RBI Act is organized into various chapters and schedules that define its powers. Chapter II covers incorporation and management, while Chapter III details central banking functions like note issue. Chapter V outlines penalties for non-compliance. Finally, the First Schedule specifies the four geographical areas for the Local Boards, ensuring regional representation in the bank's advisory and administrative structure.

70. (C) Central Vigilance Cell
The Central Vigilance Cell is the unit within the Reserve Bank dedicated to undertaking preventive vigilance and anti-corruption measures. Its operations are guided by the standards and definitions established by the Central Vigilance Commission. By focusing on these areas, the cell helps maintain the integrity of the institution and ensures that its internal processes remain free from corrupt practices.

71. (A) Only I, II and IV
The Reserve Bank possesses statutory powers to license and inspect commercial banks and to amalgamate weak financial institutions. It also develops monetary policy instruments to manage inflation. However, the bank does not focus solely on monetary stability; it also plays an active developmental role and works to ensure flexibility and adequacy in the credit system for various economic sectors.

72. (D) Assertion (A) is false, but Reason (R) is true.
The Premises Department's role extends beyond the financial viability of real estate acquisitions. Currently, it places significant emphasis on environmental consciousness by promoting the conservation of resources like energy and water within the bank's facilities. While the assertion suggesting a narrow financial focus is incorrect, the reason describing the department's modern thrust toward sustainability and resource management is accurate.

73. (D) It lists the names of all Scheduled Banks.
The Second Schedule of the Reserve Bank of India Act, 1934, is a vital legal list that names all the "Scheduled Banks" in the country. Banks included in this schedule are eligible for specific facilities from the Reserve Bank and are subject to certain obligations. This schedule is periodically updated to reflect the entry or exit of various banking institutions.

74. (C) Project Financial Literacy
Project Financial Literacy is a specific initiative by the Reserve Bank aimed at educating target groups such as school children, the rural poor, and senior citizens about basic banking concepts. By disseminating information through this project, the bank seeks to enhance financial awareness and promote the effective use of banking services among sections of the population that are often underserved.

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75. (A) Only I, II and IV
Under Chapter IV of the RBI Act, the Central Government is required to transfer rupee securities valued at five crores to the Reserve Fund. Additionally, the bank must provide weekly accounts of its Issue and Banking Departments to the government. While there are mandatory contributions to specific funds, the requirement for an annual ten-crore contribution to the National Housing Fund is incorrect.

76. (B) Only I, II, IV and V
The International Department manages the bank's relations with global bodies like BRICS, the WTO, and SAARCFINANCE. It frames

views on international cooperation and prepares research notes on these topics. It also coordinates visits for foreign delegates. However, conducting Liquidity Adjustment Facility operations is a domestic market function and is not part of this department's mandate for international economic relations.

77. (D) Chapter III B
Chapter III B was added to the Reserve Bank of India Act to extend the bank's regulatory reach. This specific chapter grants the Reserve Bank the power to register and regulate non-banking financial institutions that accept deposits from the public. This legal framework is essential for ensuring the safety of public deposits and maintaining stability within the broader non-banking financial sector.

78. (D) Secretary's Department
The Secretary's Department is primarily responsible for providing administrative and secretarial support to the top management of the Reserve Bank. Its duties include organizing high-level meetings and coordinating with foreign delegations. By managing these administrative functions, the department ensures that the Governor and Deputy Governors can effectively carry out their leadership roles and maintain necessary institutional and international communications.

79. (B) The Chief Accounting Officer
The Reserve Bank of India Act contains specific provisions for the removal of high-ranking officials by the Central Government. This includes the Governor, Deputy Governors, and members of the Local Boards. However, the Chief Accounting Officer is an internal administrative position and is not explicitly mentioned in the statutes as being subject to the same removal process as the top leadership.

80. (D) It deals with the collection and furnishing of credit information.
Chapter III A of the Reserve Bank of India Act is dedicated to the collection and furnishing of credit information. Under these provisions, the bank is authorized to collect data regarding the credit facilities granted by various banking companies to their customers. This function is essential for maintaining a comprehensive understanding of the credit environment and managing systemic risks in the banking sector.

81. (A) Only I, II, III and V
The Reserve Bank is obligated to accept government monies and manage public debt for the Central Government and certain State Governments. The terms for these services are mutually settled between the parties. However, governments do not receive interest on their deposits from the bank; rather, the relationship is based on statutory duties and negotiated service agreements for managing finances.

82. (A) Rajbhasha Department
The Rajbhasha Department is responsible for implementing the government's official language policy within the Reserve Bank. Its tasks include translating statutory documents and other publications into Hindi. Additionally, the department publishes the magazine 'Banking Chintan Anuchintan,' which focuses on banking and financial topics, thereby promoting the use of the official language in the specialized field of central banking.

83. (D) Current rates
On the official website of the Reserve Bank, key financial indicators such as policy rates and reserve ratios are prominently displayed for public access. Users can find current values for the Repo rate, Bank rate, CRR, and SLR under the "Current rates" caption. This ensures that essential information regarding monetary policy is easily available to market participants and the general public.

84. (A) P-1, Q-2, R-3, S-4
The RBI Act separates currency and banking functions through specific sections. Section 22 gives the bank sole authority for note issue. The Act also ensures that the Issue Department's assets are not subject to the Banking Department's liabilities. Section 42 defines the average daily balance requirements for banks, while the calculation for these balances is based on the fortnightly close.

85. (B) Only I, II, III and IV
The Reserve Bank of India Act explicitly provides for the establishment of several specialized funds to support different economic sectors. These

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include funds for rural credit, both for long-term operations and stabilization, as well as industrial and housing credit funds. However, there is no mention of a "National Education Credit Fund" within the statutory framework of the Act.

86. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Monetary Policy Department plays a critical role in policy implementation by assessing systemic liquidity conditions. To achieve this, it participates in the Financial Markets Committee, which meets daily to monitor and guide operations in the financial markets. These two functions are directly linked, as the department's assessment informs the committee's guidance for managing the bank's market-based operations.

87. (B) After consultation with the Governor of the Bank, when it is considered necessary in the public interest.
Section 7 of the Reserve Bank of India Act, 1934, outlines the conditions under which the Central Government can issue directions to the bank. Such directions can only be given after consultation with the Governor and when the government considers it necessary in the public interest. This provision balances the bank's operational autonomy with the government's ultimate responsibility for national welfare.

88. (B) Notifications
Researchers and professionals looking for formal regulatory documents on the Reserve Bank's website should navigate to the "Notifications" section. This area comprehensively organizes master circulars, master directions, and draft notifications. By centralizing these documents, the bank provides a clear and accessible record of the rules and guidelines that govern the conduct of regulated entities within the Indian financial system.

89. (B) Declare the Central Board to be superseded and entrust the affairs to another agency.
If the Reserve Bank fails to fulfill its statutory obligations, the Central Government has the legal authority to take corrective action under the RBI Act. Specifically, the government can declare the Central Board of Directors to be superseded. In such an event, the management of the bank's affairs is entrusted to another agency or person designated by the government for a specified period.

90. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The Reserve Bank of India Act has undergone various changes since its enactment, including the repeal of sections 59 to 61. Furthermore, subsequent legislation like the Finance Act of 2022 has continued to modify and update the scope of the Act. While both statements regarding these historical and recent legislative changes are true, they independently describe the ongoing evolution of the bank's legal framework.

91. (B) Risk associated with the acceptance of deposits by unincorporated bodies.
Chapter III C of the Reserve Bank of India Act is specifically designed to address and mitigate risks associated with the acceptance of deposits by unincorporated bodies. By prohibiting these entities from taking deposits from the public, the Act aims to protect savers from potential fraud and financial loss. This regulatory measure enhances the overall security and integrity of the informal credit market.

92. (A) P-3, Q-4, R-1, S-2
Historical committees shaped the bank's role in agriculture. The Hilton Young Commission recognized the need for financing current transactions. Earlier bills suggested creating a separate department for agricultural credit. The Central Banking Enquiry Committee proposed direct accommodation to agriculturists. Finally, the 1933 Bill included provisions for rediscounting bills specifically for seasonal operations, which became a foundational part of the Act.

93. (A) Only I and II
For the Reserve Bank to rediscount bills of exchange, the instruments must arise from bona fide commercial transactions and carry at least two good signatures, one of which must be from a scheduled bank. While these requirements ensure the quality of the paper, the statutory maturity period for such commercial instruments is actually 90 days, not 180 days, as initially specified.

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94. (C) It addresses the publication of the Bank Rate.
Chapter IV of the Reserve Bank of India Act contains various financial and administrative provisions, such as the allocation of surplus profits and contributions to the National Rural Credit Fund. It also outlines penalties for non-compliance by banks. However, the publication of the Bank Rate is a separate requirement that is not specifically detailed within the sections comprising Chapter IV of the Act.

95. (A) Linking indigenous bankers to the Reserve Bank's scheme of rediscounts.
Section 55 was an original provision of the Reserve Bank of India Act intended to integrate the traditional and modern sectors of the money market. It specifically mandated the bank to create a scheme for linking indigenous bankers to its rediscounting facilities. This aimed to bring these traditional financiers into the formal central banking fold, although the initiative faced several practical challenges.

96. (C) Both Statement I and II are correct
The Reserve Bank uses several instruments to control credit and manage liquidity in the economy. These include the Repo rate, the Bank Rate, and Open Market Operations. By buying or selling government securities through Open Market Operations, the bank can directly expand or contract the volume of credit in the banking system, thereby influencing overall economic activity and maintaining price stability.

97. (A) The Bank shall be placed in liquidation only by order of the Central Government.
The Reserve Bank of India, as a statutory body, cannot be liquidated through normal corporate insolvency processes. According to the RBI Act, the institution shall be placed in liquidation only by an explicit order of the Central Government. This ensures that the closure of the nation's central bank is a sovereign decision, handled through specific legal and administrative procedures rather than judicial petitions.

98. (B) Pound Sterling
Under the original provisions of the 1934 Act, the Reserve Bank was tasked with maintaining the international value of the rupee. This exchange obligation required the bank to preserve the ruling exchange parity specifically with the British Pound Sterling. This reflected the colonial economic structure of the time and the close integration of the Indian currency within the broader sterling area.

99. (D) The analogy of the Commonwealth Bank of Australia.
During the legislative debates for the creation of the Reserve Bank, the establishment of a special Agricultural Credit Department was a key point of discussion. The primary justification provided for this requirement was based on international precedent, specifically the analogy of the Commonwealth Bank of Australia. This example served as a model for how a central bank could support the agricultural sector.

100. (D) The publication shall not disclose the names of the banking companies which submitted the information.
The Reserve Bank is authorized to collect and publish credit information under the RBI Act. However, there are strict rules to protect the confidentiality of individual banking relationships. Specifically, any publication of this information must not disclose the names of the banking companies that submitted the data. This exception ensures that while aggregate credit trends are monitored, the specific sources remain protected.

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CHAPTER 05

Central Banking: Indian-Specific Issues

May/June 2016

1. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Assertion (A): Section 20 of the Banking Regulation Act prohibits unsecured loans and advances to a bank's directors.

Reason (R): Section 20 prohibits loans and advances on the security of a bank's own shares.

Oct/Nov 2009

2. Consider the following conditions specified by the Committee on Capital Account Convertibility (CAC) chaired by S.S. Tarapore:

I. Fiscal consolidation

II. A mandated inflation target

III. Strengthening of the financial system

IV. Strict regulation of external commercial borrowings

V. Discouraging volatile elements of flows from non-resident Indians

Which combination represents the crucial preconditions specified by the committee for achieving CAC?

(A) I, II, and III

(B) II, III, and IV

(C) I, IV, and V

(D) III, IV, and V

May/June 2023

3. Which of the following best defines the scope of Part II of the Banking Regulation Act?

(A) It regulates procedures for business suspension and the mandatory winding up of banking companies.

(B) It defines legal parameters regarding the short title, geographical extent, and formal commencement.

(C) It governs business forms, capital requirements, management controls, and the relative position of laws.

(D) It addresses miscellaneous regulatory aspects including penalties and official changes of bank names.

Oct/Nov 2018

4. Who chaired the Expert Group appointed in November 1994 to make recommendations to develop, deepen and widen the foreign exchange market in India?

(A) C. Rangarajan

(B) S.S. Tarapore

(C) O.P. Sodhani

(D) M. Narasimham

May/June 2007

5. Consider the following statements regarding the principal sections of the Banking Regulation Act:

I. Section 22 provides a comprehensive system of licensing of banks by the Reserve Bank.

II. Section 24 and 25 stipulate the maintenance of sufficient liquid assets in India.

III. Section 26 directs every banking company to submit a return of unclaimed deposits within 90 days of the close of the calendar year.

IV. Section 29 to 32 contain provisions as to balance sheet, its audit, and publications.

Which of the above statements are correct?

(A) I, II, and III only

(B) I, II, and IV only

(C) II, III, and IV only

(D) I, III, and IV only

Oct/Nov 2025

6. The following question consists of two statements, one labeled as Assertion (A) and

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the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Assertion (A): Under the Integrated Ombudsman Scheme 2021, complaints are rejected simply on the account of "not covered under the grounds listed in the scheme".

Reason (R): The Scheme defines 'deficiency in service' as the ground for filing a complaint, with a specified list of exclusions.

May/June 2012

7. A rapidly expanding bank employs unsound methods to attract deposits to get control over public funds for speculative investments and trading activities. Which of the following outcomes was historically noted as a consequence of such motives prior to the comprehensive banking legislation in India?

(A) It fostered a deceptive perception of intrinsic strength through an artificial capital structure.
(B) It created interlocking interests between banks and industries, detrimental to depositors.
(C) It ensured an automatic and immediate inclusion of the bank in the Reserve Bank's Second Schedule.
(D) It mandated that banks independently maintain significantly higher levels of liquid assets locally.

Oct/Nov 2014

8. Match the Rangarajan Committee (1993) recommendations in List I with their corresponding details in List II:

List I: (Recommendation Area)
P. Current account transactions
Q. Capital flows
R. External commercial borrowings
S. Volatile elements of flows

List II: (Recommendation Detail)
1. Strict regulation, especially short-term debt
2. Discouraging from non-resident Indians
3. Liberalization leading to convertibility
4. Compositional shift away from debt to non-debt creating flows

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-2, R-3, S-4

May/June 2019

9. The Government of India designated the Reserve Bank as the compounding authority for all contraventions under the Foreign Exchange Management Act (FEMA), EXCEPT for transactions involving which of the following?

(A) Forward rate agreements
(B) Hawala transactions
(C) Cross-currency options
(D) Acceptance credit for exports

Oct/Nov 2006

10. Under Section 36 of the Banking Regulation Act, the Reserve Bank is empowered to perform various actions. Which of the following is NOT an action explicitly empowered under this section?

(A) Issue specific cautions or formally prohibit banks from entering into certain transactions.
(B) Provide assistance to intermediaries regarding formal proposals for banking amalgamations.
(C) Issue a final order for the voluntary winding up of a bank without judicial intervention.
(D) Require a banking company to implement changes in its management following an inspection.

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May/June 2021

11. Consider the following statements regarding the procedures of the Integrated Ombudsman Scheme 2021:

I. A Centralised Receipt and Processing Centre has been set up at RBI, Chandigarh.
II. The Regulated Entity must appoint a Principal Nodal Officer not less than the rank of a General Manager.
III. The Regulated Entity has the right to appeal in cases where an Award is issued against it for not furnishing satisfactory information.
IV. The Scheme applies to Non-Scheduled Primary Co-operative Banks with a deposit size of Rs 50 crore and above.

Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2010

12. Consider the following statements regarding the principal sections of the Banking Regulation Act:
I. Sections 8 and 9 prohibit a bank from engaging in trade or business other than banking.
II. Section 10 prohibits the employment of managing agents.
III. Section 11 deals with the regulation of the proportion of authorized, subscribed, and paid-up capital.
Which of the above statements are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2005

13. In August 1994, India achieved current account convertibility. Which specific international obligation did India accept to mark this transition?
(A) Article VIII of the IMF Articles of Agreement.
(B) Article IV of the World Bank Articles of Agreement.
(C) Compounding Rules of the FEMA legislative framework.
(D) Full capital account convertibility under LERMS.

Oct/Nov 2022

14. What is the primary rationale for the amendment of Section 18 of the Reserve Bank of India Act under the provisions outlined in the Banking Regulation Act?
(A) To strictly prohibit the employment of managing agents on a commission or profit-sharing basis.
(B) To outline conditions required for inclusion or exclusion of banks from the second schedule.
(C) To permit the Bank to provide emergency loans and advances against any security it deems sufficient.
(D) To mandate the maintenance of high liquid assets to cover potential liabilities outside India.

May/June 2018

15. Consider the following schemes:
I. The Banking Ombudsman Scheme, 2006
II. The Ombudsman Scheme for Non-Banking Financial Companies, 2018
III. The Ombudsman Scheme for Digital Transactions, 2019
Which of the above schemes were integrated into the Integrated Ombudsman Scheme 2021?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2016

16. Arrange the following events in the correct chronological order of their occurrence:
I. Passage of the Banking Companies (Restriction of Branches) Bill
II. Meeting of the Select Committee on the draft Banking Companies Bill
III. Promulgation of the Banking Companies (Inspection) Ordinance
IV. Renaming of the legislation to the Banking Regulation Act
(A) III, I, II, IV
(B) I, III, II, IV
(C) III, II, I, IV
(D) I, II, III, IV

May/June 2014

17. To deepen the foreign exchange market, an authorized dealer uses innovative products like interest rate and currency swaps, and caps/collars. Under whose delegated powers are these authorized dealers permitted to release foreign exchange and use such instruments?
(A) Reserve Bank of India
(B) Directorate of Enforcement
(C) Securities and Exchange Board of India
(D) Special Director (Appeals)

Oct/Nov 2007

18. Which section of the Banking Regulation Act empowers the Reserve Bank to determine policy regarding advances to be followed by banks, including the purposes for which advances may

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or may not be made and margins on secured advances?
(A) Section 20
(B) Section 21
(C) Section 22
(D) Section 23

May/June 2025

19. Identify the correct statement concerning the Foreign Exchange Management Act (FEMA), 1999:
(A) The stated objective of FEMA was the "conservation of foreign exchange resources of the country".
(B) Contraventions of FEMA provisions are dealt with under criminal procedures.
(C) All violations under FEMA are subject to separate investigation and adjudication of the Directorate of Enforcement without a compounding option.
(D) FEMA diluted the rigorous enforcement provisions and prosecution has to prove the guilt of the accused person.

Oct/Nov 2019

20. In the context of historical banking practices, which ordinance was promulgated in 1946 to control unsound methods like dressing up accounts to present a misleading financial position for inclusion in the Second Schedule?
(A) Banking Companies (Inspection) Ordinance, 1946
(B) Banking Companies (Control) Ordinance, 1948
(C) Banking Companies (Restriction of Branches) Ordinance, 1946
(D) Foreign Exchange (Regulation) Ordinance, 1946

May/June 2009

21. What is the primary objective of adopting the 'One Nation One Ombudsman' approach in the Integrated Ombudsman Scheme 2021?
(A) To restrict the filing of all grievances to a single centralized physical office in New Delhi.
(B) To mandate that every complainant identify the exact historical scheme for their grievance.
(C) To make the mechanism jurisdiction-neutral, removing specific territorial office constraints.
(D) To ensure all processed complaints are settled ex-parte by the designated Appellate Authority.

NODIA

Oct/Nov 2011

22. Match the Sections of the Banking Regulation Act in List I with their corresponding provisions in List II:
List I: (Sections)
P. Section 16
Q. Section 17
R. Section 18
S. Section 19
List II: (Provisions)
1. Maintenance of minimum cash reserve by non-scheduled banks
2. Restriction on formation of subsidiary companies
3. Prohibition of common directors among banks
4. Provision for building up of Reserve Fund
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-1, Q-2, R-4, S-3
(D) P-3, Q-1, R-4, S-2

May/June 2010

23. Identify the incorrect pair regarding the structure of the Banking Regulation Act:
(A) Part I : Deals with short title, extent, and commencement.
(B) Part III : Deals with suspension of Business and Winding up of Banking Companies.
(C) Part III-B : Incorporates provisions relating to certain operations of banking companies like powers of central government to make rules for preservation of records.
(D) Part IV : Deals with the application of the Act to Co-operative banks.

Oct/Nov 2024

24. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Assertion (A): Under the Foreign Exchange Management Act (FEMA) system, all genuine current account payments except those notified by the government require strict prior clearance from the Reserve Bank of India.
Reason (R): The emphasis in foreign exchange management shifted from "control" to "management" under FEMA.

May/June 2017

25. Consider the following statements regarding the Liberalized Exchange Rate Management System (LERMS):
I. It involved a dual exchange rate mechanism instituted in March 1992.
II. The dual exchange rate system was a permanent framework culminating in current account convertibility.
Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2005

26. Consider the following statements regarding the application of the Banking Regulation Act:
I. It applies to primary agricultural credit societies.
II. It applies to a co-operative society transacting banking business whose primary object is providing long-term finance for agricultural development.
Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2020

27. Under the Integrated Ombudsman Scheme 2021, how is the "Appellate Authority" defined?
(A) The Executive Director-in-Charge of the RBI Department administering the Scheme.
(B) A Judge of the High Court acting in the capacity of an official Court Liquidator.
(C) The Principal Nodal Officer holding the rank of General Manager in a public bank.
(D) The Governor of the Reserve Bank of India acting as the final appellate authority.

Oct/Nov 2015

28. Consider the following statements and identify the correct one regarding the provisions for amalgamation of banks under the Banking Companies Act, 1949 (as amended in 1950):
(A) Schemes must be approved by a resolution of two-thirds of the shareholders present in person or by proxy.
(B) All amalgamation schemes require prior approval from the Reserve Bank before being presented to shareholders.
(C) A scheme sanctioned by the Reserve Bank becomes legally binding only on the dissenting shareholders involved.
(D) The amending Act withdrew the Reserve Bank's power to license branches operating in territories outside India.

May/June 2013

29. Under the Foreign Exchange Management Act (FEMA), within what timeframe is the compounding authority required to dispose of a compounding application?
(A) 30 days
(B) 90 days
(C) 180 days
(D) 365 days

Oct/Nov 2021

30. A commercial bank intends to open a new branch outside India. Which legislative framework primarily provides the Reserve Bank with the specific powers of licensing for opening branches outside India?
(A) The Banking Companies (Restriction of Branches) Act, 1946
(B) The Banking Companies (Control) Ordinance, 1948
(C) The Foreign Exchange Management Act, 1999
(D) The Banking Companies Act, 1949 as amended in 1950

May/June 2024

31. A complainant made a written complaint to a Regulated Entity but received no reply. What is the maximum time limit allowed for filing the complaint with the Ombudsman after the expiry of 30 days from the date the Regulated Entity received the initial complaint?
(A) 30 days
(B) 6 months

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(C) 1 year
(D) 3 years

Oct/Nov 2008

32. Consider the following statements regarding the second phase of banking sector reforms (Narasimham Committee II):
I. Steps were taken to increase the capital adequacy ratio.
II. Risk weights were assigned to open position in forex and gold.
III. Internationally accepted norms of income recognition were abolished.
Which of the above statements are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2006

33. Under the Integrated Ombudsman Scheme 2021, what is the limit on the compensation that the Ombudsman can provide to the complainant for any consequential loss suffered?
(A) Up to Rupees 20 lakh
(B) Up to Rupees 10 lakh
(C) Up to Rupees 50 lakh
(D) There is no limit on the compensation for consequential loss.

Oct/Nov 2017

34. Under regulatory guidelines for Asset Reconstruction Companies (ARCs), they shall NOT acquire financial assets from certain entities on a bilateral basis. Which of the following is an EXCEPTION where they MAY participate?
(A) A banking institution which acts as the primary sponsor of the ARC.
(B) A financial institution which currently serves as a lender to the ARC.
(C) A subscriber to the specific fund raised by the ARC for its operations.
(D) Group entities, provided auctions are transparent and at arm's length.

May/June 2008

35. Consider the following statements regarding the powers of the Appellate Authority under the Integrated Ombudsman Scheme 2021:
I. It can dismiss the appeal.
II. It can allow the appeal and set aside the Award.
III. It can remand the matter to the Ombudsman for fresh disposal.
IV. It can modify the order of the Ombudsman.
V. It can pass any other order as it may deem fit.
Which of the above statements are correct?
(A) I, II, and III only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2013

36. Which of the following pairs correctly matches the acronym with its expansion in the context of the Indian capital market?
(A) FCCBs - Foreign Currency Convertible Bonds
(B) ADRs - Asian Depository Receipts
(C) OCBs - Offshore Corporate Banks
(D) GDRs - Government Depository Receipts

May/June 2015

37. Which of the following accurately describes the "Regulated Entity" as defined under the Integrated Ombudsman Scheme 2021?
(A) Any bank, NBFC, System Participant, or Credit Information Company as defined in the Scheme.
(B) An entity defined specifically under the Reserve Bank of India Act, 1934.
(C) A legal advocate or professional consultant appointed to represent the complainant.
(D) A judicial official appointed directly by the Central Government for the region.

Oct/Nov 2012

38. Identify the incorrect statement regarding the pre-reform state of the Indian financial sector during the 1980s:
(A) The financial markets were highly segmented and controlled.
(B) The banking sector remained dominated by public sector banks with a significant quantum of non-performing assets.
(C) The statutory liquidity ratio (SLR) was mandated to extend credit to the Government.
(D) Commercial banks were required to invest substantial portions of their liabilities in government securities at above market interest rates.

NODIA

May/June 2011

39. Match the following Acts with their respective years of enactment:

List I: (Acts)

P. Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act

Q. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act

R. Indian Stamp Act

S. Depositories Act

List II: (Year)

1. 2002
2. 1993
3. 1899
4. 1996

(A) P-1, Q-2, R-4, S-3
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-3, S-4

Oct/Nov 2020

40. Consider the following statements regarding the Ex-Parte Order under the Integrated Ombudsman Scheme 2021:

I. If the Regulated Entity fails to file its written version within the provided time, the Ombudsman may proceed ex-parte.

II. The Regulated Entity has the right to appeal an Award issued on account of non-response within the stipulated time.

Which of the above statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2022

41. To manage market liquidity, the Reserve Bank of India (RBI) injects and absorbs liquidity. If a scheduled commercial bank requires additional collateralized lending beyond the standard facilities, which facility was historically utilized for this purpose?

(A) Export refinance facility
(B) Additional collateralized lending facility (ACLF)
(C) Collateralized lending facility (CLF)
(D) Open Market Operations (OMO)

Oct/Nov 2023

42. A customer approaches the Ombudsman because a bank took a commercial decision to reject their loan application based on internal credit risk policies. Which of the following is the correct course of action for the Ombudsman?

(A) The Ombudsman will exercise power to direct the bank to approve the specific loan request.
(B) The Ombudsman will award mandatory compensation of up to Rupees 1 lakh for mental anguish.
(C) The Ombudsman will reject the complaint as it involves commercial judgment of the entity.
(D) The Ombudsman will refer the complaint to the Appellate Authority for a final legal verdict.

NODIA

May/June 2016

43. What was the primary objective of the first phase of reforms in the financial sector guided by the Narasimham Committee in 1992?

(A) To implement improvements by focusing purely on mandatory capital adequacy ratios.
(B) To increase operational flexibility and functional autonomy to foster efficiency.
(C) To mandate strict government control over the pricing of all capital market assets.
(D) To eliminate the entry of new private sector banks into the financial landscape.

Oct/Nov 2009

44. To handle complaints filed against a bank efficiently under the Ombudsman scheme, what administrative action must a bank with a vast network of branches take at the regional or zonal level?

(A) Appoint the Appellate Authority for each zone.
(B) Designate an advocate to represent the bank before the Ombudsman in each zone.
(C) Set up a separate Centralised Receipt and Processing Centre.
(D) Appoint Nodal Officers at Regional/Zonal Offices, with one designated as the 'Principal Nodal Officer'.

May/June 2023

45. Consider the following statements regarding the reforms in other segments of the Indian financial sector:

I. The Securities and Exchange Board of India (SEBI) was established in February 1992 as the regulator for equity markets.

II. The Insurance Regulation and Development Authority (IRDA) Act was passed in 1999 to liberalize the insurance business.

Which of the above statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2018

46. Identify the incorrect statement regarding the definition of "Non-Banking Financial Company" (NBFC) under the Integrated Ombudsman Scheme 2021:

(A) It means an NBFC as defined in Section 45-I (f) of the Reserve Bank of India Act, 1934.
(B) It includes a Core Investment Company (CIC).
(C) It does not include an Infrastructure Debt Fund-Non-Banking Financial Company (IDF-NBFC).
(D) It does not include a company in resolution or winding up/liquidation.

May/June 2007

47. Consider the following statements regarding the overhaul of Debt Recovery Tribunals (DRTs) and related legislative proposals:

I. Electronic filing of recovery applications and documents is proposed.

II. The debtor will have to deposit 50% of the amount of debt due before filing an appeal at a DRT.

III. A district magistrate has to clear an application by the creditor to take over possession of the collateral within 60 days.

IV. The proposal suggests amending the Indian Stamp Act to double the levy of stamp duty when an Asset Reconstruction Company (ARC) buys a loan.

Which of the above statements are correct?

(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2025

48. Match the conditions under which a complaint is deemed to be resolved in the Ombudsman process with their descriptions:

List I: (Condition)

P. Intervention of Ombudsman
Q. Written agreement
R. Voluntary action
S. Rejection by Ombudsman

List II: (Description)

1. The complainant withdraws the complaint.
2. The complainant agrees the extent of resolution is satisfactory.
3. Settled by the Regulated Entity with the complainant.
4. The compensation sought is beyond the power of the Ombudsman.

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-2, R-1, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

May/June 2012

49. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Assertion (A): The 90-day delinquency norm was introduced to align income recognition with internationally accepted norms.

Reason (R): Under this norm, income on assets is not recognized if not received within two quarters after the due date.

Oct/Nov 2014

50. If a practical difficulty arises in giving effect to the provisions of the Integrated Ombudsman Scheme 2021, which entity is authorized to make provisions to remove the difficulty?

(A) The Appellate Authority
(B) The Central Government
(C) The Reserve Bank of India
(D) The Indian Banks' Association

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May/June 2019

51. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Assertion (A): The era of automatic monetization of government debt in India came to an end with effect from April 1, 1997.
Reason (R): The Reserve Bank entered into an agreement with the Government of India in September 1994 for gradual phasing out of ad hoc treasury bills.

Oct/Nov 2006

52. Under the Integrated Ombudsman Scheme 2021, a complaint is considered non-maintainable and shall not lie in matters involving any of the following, EXCEPT:
(A) A dispute between a vendor and a Regulated Entity relating to an outsourcing contract.
(B) General grievances against Management or Executives of a Regulated Entity.
(C) A dispute between Regulated Entities.
(D) A deficiency in service rendering by a Regulated Entity causing financial loss to the customer.

May/June 2021

53. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Assertion (A): A complaint may be rejected by the Ombudsman at any stage if it is in the nature of offering suggestions or seeking guidance.
Reason (R): The Scheme strictly mandates the Ombudsman to adjudicate cases that require consideration of elaborate documentary and oral evidence.

Oct/Nov 2010

54. Under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002, to which judicial authority can a borrower approach for redressal against an action taken by a bank?
(A) High Court
(B) Debts Recovery Appellate Tribunal directly
(C) Debts Recovery Tribunal (DRT)
(D) Supreme Court

NODIA

May/June 2005

55. The macro-economic crisis in early 1991 precipitated into a balance of payments crisis. Which of the following factors contributed to the worsening of this situation?
(A) Low international confidence and net outflows of NRI deposits.
(B) A drop in the national inflation rate to below 5 per cent.
(C) An increase in the volume of external commercial borrowing.
(D) Foreign exchange reserves reaching a peak level due to exports.

Oct/Nov 2022

56. A complainant demands compensation for the loss of time, expenses incurred, and mental anguish due to a deficiency in service. What is the maximum additional compensation the Ombudsman can award specifically for these reasons?
(A) Rupees 20 lakh
(B) Rupees 1 lakh
(C) Rupees 5 lakh
(D) The Ombudsman cannot award compensation for mental anguish.

May/June 2018

57. In the context of broad approaches for financial market supervision, what does the 'functional supervision' model consider as its basis?
(A) It considers as 'given' the economic functions performed in the financial system.
(B) It considers supervision over each single category of financial institution

independently.
(C) It relies on a single control authority with responsibility over all markets.
(D) It postulates that intermediaries may be subjected to control regardless of the functions they perform.

Oct/Nov 2016

58. Identify the correct statement regarding the acceptance and compliance of an Award passed by the Ombudsman:
(A) The Regulated Entity must comply within 30 days of the acceptance, unless it appeals.
(B) The Award shall lapse if the complainant fails to furnish acceptance within 15 days.
(C) The complainant is restricted to preferring an appeal within 60 days of the Award.
(D) The Regulated Entity can file an appeal without obtaining sanction from its Director.

May/June 2014

59. Based on the Tiwari Committee report, which specialized framework was set up to ensure speedy disposal of bad loan recovery claims for banks?
(A) National Housing Bank for mortgage rules.
(B) Banking Ombudsman for consumer grievances.
(C) Special Tribunals under the DRT Act, 1993.
(D) Board for Financial Supervision of banks.

Oct/Nov 2007

60. To ensure public awareness, banks are required to display the contact details of the Ombudsman. Where must this information be prominently displayed?
(A) Exclusively on the bank's official website and mobile application.
(B) Prominently within all the various offices and branches of the bank.
(C) Only within the physical premises of the bank's national Head Office.
(D) In the local community newspapers on a recurring quarterly basis.

May/June 2025

61. Regarding the Indian financial system, what is the generally accepted assessment of the severity of issues such as regulatory overlaps, regulatory conflicts on 'turf grounds', and 'regulatory arbitrage'?
(A) They are causing severe disruptions requiring an immediate single regulator.
(B) They have created a highly uneven field for intermediaries to perform.
(C) They are considered to be negligible.
(D) They are the primary cause of financial instability.

Oct/Nov 2019

62. Consider the following statements regarding the Unit Trust of India (UTI):
I. It was established as a Trust by the Government of India in February 1964.
II. It was an associate institute of RBI till 1976.
III. Its primary aim was to stimulate saving among the high-income groups only.
Which of the above statements are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2009

63. Identify the incorrect statement regarding the regulatory authorities and their jurisdictions in India:
(A) IRDA - Regulates merchant bankers and credit rating agencies.
(B) Reserve Bank of India - Supervisory body in respect of banks, NBFCs, and all-India financial institutions.
(C) Registrar of Co-operatives (ROC) - Joint regulator for the banks in the cooperative sector.
(D) SEBI - Regulates capital markets, stock exchanges, and mutual funds.

Oct/Nov 2011

64. Identify the incorrect statement regarding the Clearing Corporation of India Ltd. (CCIL):
(A) It was set up in April 2001 for clearing and settlement for transactions in Money, Government Securities and Foreign Exchange.
(B) It launched the Collateralized Borrowing and Lending Obligation (CBLO) in January 2003.
(C) It manages the Unified Payments Interface (UPI) for retail customers.
(D) It developed a forex trading platform "FX-CLEAR" which went live in August 2003.

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May/June 2010

65. Consider the following statements regarding the National Bank for Agriculture and Rural Development (NABARD):

I. It was set up on July 12, 1982.
II. Its initial capital was Rs 100 crore contributed equally by the union government and the RBI.
III. The capital has since been raised to Rs 2000 crore.
IV. It only provides short-term credit repayable within 18 months and is barred from providing long-term loans.

Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2024

66. The National Payments Corporation of India (NPCI) was incorporated as a Section 25 company under which Act?
(A) Companies Act
(B) Reserve Bank of India Act
(C) Banking Regulation Act
(D) Payment and Settlement Systems Act

May/June 2017

67. Consider the following approaches for financial market supervision and regulation:

I. Institutional supervision
II. Supervision by objectives
III. Functional supervision
IV. Single regulator supervision
V. Hybrid supervision

Which combination represents the four broad approaches recognized for global financial regulation?
(A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

Oct/Nov 2005

68. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Assertion (A): In 2004, it was decided to transform IDBI into a Bank.
Reason (R): IDBI continued to serve purely as an agricultural development finance institution till the year 2004.

NODIA

May/June 2020

69. Identify the correct statement regarding the Export-Import Bank of India (EXIM Bank):
(A) It extends lines of credit to overseas entities to finance Indian goods on deferred terms.
(B) It was established in 1992 specifically under the mandate of the foreign exchange laws.
(C) It restricts its primary operations to the domestic marketing and sale of farm products.
(D) It is prohibited from providing any non-funded facilities such as letters of credit.

Oct/Nov 2015

70. In which year did the Deposit Insurance Corporation (DIC) commence its operations in India?
(A) 1951
(B) 1962
(C) 1968
(D) 1971

May/June 2013

71. A customer wishes to transfer funds instantly using a mobile platform without sharing their bank account number or IFSC details. Which payment system, built over IMPS and utilizing a unique ID provided by the bank, is best suited for this transaction?
(A) Unified Payments Interface (UPI)
(B) National Financial Switch (NFS)
(C) Cheque Clearing
(D) Automated Clearing House

Oct/Nov 2021

72. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Assertion (A): The justification for the Governor of the Reserve Bank to be the Chairman of the apex financial regulatory authority in India is based on the cash market impact.
Reason (R): Every transaction has one leg in the cash/inter-bank market in terms of ultimate payment/settlement, and the Reserve Bank is the ultimate provider of liquidity.

May/June 2024

73. Which institution was primarily reconstituted in 1985 to act as the principal credit and reconstruction agency for the revival of sick industrial companies in India?
(A) ICICI
(B) Discount and Finance House of India (DFHI)
(C) EXIM Bank
(D) Industrial Reconstruction Bank of India (IRBI)

Oct/Nov 2008

74. What was the primary two-fold objective of the Industrial Development Bank of India (IDBI) when it was established in 1964?
(A) To control foreign exchange and issue currency.
(B) To act as a sole regulator for urban cooperative banks and non-banking financial companies.
(C) To supplement and coordinate the activities of the existing institutions in the field of industrial finance.
(D) To regulate the stock exchanges and mutual funds.

May/June 2006

75. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Assertion (A): The Banking Codes and Standards Board of India (BCSBI) was set up as an independent and autonomous body under the Societies Registration Act, 1860.
Reason (R): It was felt that an independent, autonomous Board functioning as a Self-Regulatory Organization (SRO) will be best suited to enforce a prescribed quality of customer service.

Oct/Nov 2017

76. The broad approach followed in India for financial market supervision corresponds to which system of regulation?
(A) Single-regulator supervisory model
(B) Supervision by objectives
(C) Functional supervision
(D) Institution based system of regulation

May/June 2008

77. Consider the following statements regarding the National Housing Bank (NHB):
I. It was set up on July 9, 1988 under the National Housing Bank Act, 1987.
II. It is wholly owned by the Reserve Bank of India.
III. Its Head Office is at New Delhi.
IV. It promotes a sound, healthy, viable and cost-effective housing finance system.
V. It operates the National Financial Switch (NFS) ATM network.
Which of the above statements are correct?
(A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

Oct/Nov 2013

78. Which of the following is the correct statement regarding the choice between single and multiple regulators in a financial system?
(A) A single regulator is the only unique model evolved so far that sub-serves all objectives.
(B) Choice between models should be made merely as a measure of meeting some pressing demands.

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(C) Under any system, all issues of information exchange and coordination can be eliminated.
(D) Choice allows for hybrids and supplementing arrangements rather than extreme single models.

May/June 2015

79. The UTI Mutual Fund is promoted by four of the largest Public Sector Financial Institutions in India. Which of the following is NOT one of the promoters holding an 18.5% stake in the paid-up capital of UTI AMC?
(A) State Bank of India
(B) Reserve Bank of India
(C) Life Insurance Corporation of India
(D) Punjab National Bank

Oct/Nov 2012

80. Why was the Industrial Development Bank of India (IDBI) de-linked from the Reserve Bank of India and made an autonomous corporation in February 1976?
(A) Because the RBI lacked the necessary financial and technical resources to support IDBI.
(B) Because IDBI was officially merged with the Unit Trust of India to consolidate market share.
(C) To transform IDBI into a specialized Asset Reconstruction Company to manage the NPAs.
(D) To enlarge its role as an apex institution for effective coordination among all institutions.

May/June 2011

81. Match the following NPCI innovations or services in List I with their descriptions in List II:
List I: (Service/Innovation)
P. NFS
Q. IMPS
R. RuPay
S. UPI
List II: (Description)
1. A domestic card payment network providing an alternative to international card schemes.
2. ATM Network whose operations were taken over from IDRBT.
3. Facilitates instant fund transfer between two bank accounts on the mobile platform using a Virtual Payment Address.
4. Immediate Payments Service operating 24x7x365.
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-2, Q-4, R-1, S-3
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2020

82. Consider the following officials as potential members of the High Level Committee on Capital and Financial Markets in India:
I. Governor of the Reserve Bank
II. Finance Secretary
III. Chairman SEBI and Chairman IRDA
Which combination represents the actual membership of this Committee?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2022

83. Match the committees in List I with the outcomes or institutions they recommended in List II:
List I: (Committees)
P. All-India Rural Credit Survey (A.D. Gorwala)
Q. Sukhumoy Chakravarty's Committee
R. Vaghul Committee
S. Dr. C. Rangarajan (Sub-Group on Housing Finance)
List II: (Outcomes/Institutions)
1. National Housing Bank
2. Discount and Finance House of India (DFHI)
3. Nationalization of Imperial Bank of India
4. Monetary Reform recommendations based on an in-depth study of the money market
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-2, R-4, S-1
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2023

84. An Indian small and medium enterprise (SME) requires advisory services for globalization and evaluation of international risks. Which institution's Export Marketing Services (EMS) Programme is specifically designed for this purpose?

NODIA

(A) NABARD
(B) NHB
(C) EXIM Bank
(D) CCIL

May/June 2016

85. Consider the following statements regarding the Discount and Finance House of India (DFHI):
I. It was set up jointly by the Reserve Bank of India, public sector banks, and financial institutions.
II. Its major objective is to facilitate the smoothening of imbalances in short-term liquidity by developing an active secondary market for money market instruments.
Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2009

86. Regarding the regulatory structure in India, what is the recognized view regarding the duality of control over the banking system?
(A) A 'Super Regulator' should solely control the banking sector, completely replacing the RBI.
(B) Duality between the RBI and the Ministry of Finance should end, with the RBI as lead agency.
(C) The High Level Group on Capital Markets should be empowered to directly regulate banks.
(D) Duality should be legally entrenched as a mechanism to prevent potential regulatory arbitrage.

May/June 2023

87. What was the foundational purpose of setting up the Banking Codes and Standards Board of India (BCSBI)?
(A) To handle the daily clearing and settlement procedures for foreign exchange transactions.
(B) To measure bank performance against a benchmark of best practices for customer service.
(C) To act as the primary statutory regulator for the entire domestic private insurance sector.
(D) To provide refinance and financial support for small-scale rural agricultural activities.

Oct/Nov 2018

88. Arrange the establishment of the following institutions in India in the correct chronological order:
I. Industrial Development Bank of India (IDBI)
II. National Bank for Agriculture and Rural Development (NABARD)
III. Deposit Insurance Corporation (DIC)
IV. Export Import Bank of India (EXIM Bank)
(A) III, I, IV, II
(B) I, III, II, IV
(C) III, I, II, IV
(D) I, II, III, IV

May/June 2007

89. Due to financial stress in 2001, the UTI Act was repealed and the institution was bifurcated. Which entity took over the assets and liabilities of schemes for which the Government provided a bail-out package?
(A) UTI Mutual Fund
(B) Specified Undertaking of UTI (SUUTI)
(C) T Rowe Price Group Inc
(D) National Investment Trust

Oct/Nov 2025

90. A State Co-operative Bank requires financial assistance for agricultural operations, including a short-term credit of 15 months and a long-term loan of 20 years. Which apex refinancing institution in India provides both forms of refinance?
(A) NABARD
(B) EXIM Bank
(C) IDBI
(D) NHB

May/June 2012

91. The following question consists of two statements, one labeled as Assertion (A) and the other labeled as Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Assertion (A): After facing stress on their exposures, banks turned risk averse and moderated their lending to the infrastructure sector in India.
Reason (R): The long gestation periods of infrastructure projects led to asset liability mismatches, serving as a disincentive for lending.

Oct/Nov 2014

92. A newly incorporated entity plans to aggregate fragmented legacy NPAs across various lenders to incentivise quicker resolution. Which entity has been created to acquire these assets by paying 15% in cash and 85% in government-guaranteed Security Receipts?
(A) NaBFID
(B) IDBI
(C) NARCL
(D) CCIL

May/June 2019

93. Match the mobile-based payment identifiers or methods in List I with their corresponding details in List II:
List I: (Identifier/Method)
P. IFSC Code
Q. MMID
R. Aadhaar number
S. MPIN
List II: (Detail)
1. Linked to bank account for purposes of funds transfer.
2. Mobile banking personal identification number required to confirm each payment.
3. Provided along with the account number.
4. Mobile Money Identifier provided with a mobile number.
(A) P-4, Q-3, R-2, S-1
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2006

94. Match the developmental phases or actions in List I with the respective institutions in List II:
List I: (Phase/Action)
P. Transformed into a commercial bank in 2004
Q. Bifurcated into two parts in 2001
R. Replaced by Tri-Party Repo w.e.f 5.11.2018
S. Dissolved w.e.f 28th September 2021
List II: (Institution/Instrument)
1. Collateralized Borrowing and Lending Obligations (CBLOs)
2. Banking Codes and Standards Board of India (BCSBI)
3. Industrial Development Bank of India (IDBI)
4. Unit Trust of India (UTI)
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-3, Q-1, R-4, S-2

May/June 2021

95. Identify the incorrect statement regarding the National Bank for Financing Infrastructure and Development (NaBFID):
(A) It addresses asset liability mismatches in infrastructure due to short gestation periods.
(B) The NaBFID Act was formally enacted in 2021 by the Parliament to enable its operations.
(C) Union Budget 2021-22 specifically budgeted a sum of Rs 20,000 crores for its capital.
(D) It is recognized as the fifth All India Financial Institution under the RBI's purview.

Oct/Nov 2010

96. Consider the following statements regarding the National Asset Reconstruction Company Limited (NARCL):
I. It is incorporated by financial institutions only.
II. It will initially acquire NPAs with total secured outstanding exposure of Rs 500 crore and above.
III. It acquires assets through 15 per cent upfront payment in cash and 85 per cent in Security Receipts (SRs).
IV. The SRs issued will be guaranteed by the government to cover the difference between the face value and actual realization for up to five years.
Which of the above statements are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

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May/June 2005

97. Identify the incorrect statement regarding the Deposit Insurance and Credit Guarantee Corporation (DICGC):
(A) Its sole objective is to provide guarantee cover to large corporate borrowers.
(B) The DIC Act was amended in 1968 to extend the insurance scheme to deposits with cooperative banks.
(C) The Credit Guarantee Corporation of India Ltd. and DIC were merged in 1978.
(D) The merger led to the formation of DICGC.

Oct/Nov 2022

98. Match the All India Financial Institutions (AIFIs) in List I with their specific domain focus in List II:
List I: (Institution)
P. EXIM Bank
Q. NABARD
R. NHB
S. NaBFID
List II: (Domain Focus)
1. Agriculture and rural development
2. Housing finance
3. Export and import finance
4. Long term infrastructure financing
(A) P-4, Q-2, R-1, S-3
(B) P-3, Q-1, R-2, S-4
(C) P-1, Q-3, R-4, S-2
(D) P-3, Q-4, R-2, S-1

May/June 2018

99. Consider the following parameters for Threshold - I under the Prompt Corrective Action (PCA) Framework for NBFCs:
I. CRAR is greater than or equal to 12% but less than 15%.
II. Tier - I Capital is greater than or equal to 8% but less than 10%.
III. Net NPA Ratio is greater than 6% but less than or equal to 9%.
IV. Leverage ratio is greater than or equal to 2.5 times but less than 3 times.
V. Adjusted net-worth/aggregate risk weighted assets is less than 30% but greater than or equal to 24%.
Which of the above statements correctly reflect the indicators for Threshold - I?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2016

100. During the macroeconomic crisis in early 1991 in India, foreign exchange reserves reached a negligible level and commercial borrowing dried up. By August 1991, what peak level had inflation reached on an annualized basis?
(A) 5 per cent
(B) 10.5 per cent
(C) 17 per cent
(D) 24 per cent

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ANSWERS

1. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Section 20 of the Banking Regulation Act specifically prohibits banking companies from granting unsecured loans or advances to any of their directors. Separately, the same section restricts banks from providing any loans or advances against the security of their own shares. While both regulatory provisions are factual and valid, they represent distinct restrictions within the legislative framework for banking governance.

2. (A) I, II, and III
The Committee on Capital Account Convertibility, chaired by S.S. Tarapore, identified specific preconditions for the transition. These crucial requirements included achieving sustainable fiscal consolidation, establishing a mandated inflation target, and significantly strengthening the domestic financial system. These measures were considered essential to ensure economic stability before allowing the unrestricted movement of capital across borders in the Indian financial context.

3. (C) It governs business forms, capital requirements, management controls, and the relative position of laws.
Part II of the Banking Regulation Act encompasses the core regulatory framework for banking operations. It specifically governs the permissible forms of business, requirements for minimum paid-up capital and reserves, and controls over management. Additionally, it addresses the relative position of the Act in relation to other laws, ensuring a comprehensive legal structure for the functioning of banking companies.

4. (C) O.P. Sodhani
In November 1994, the Reserve Bank of India appointed an Expert Group specifically to provide recommendations for developing and widening the foreign exchange market. This group was chaired by O.P. Sodhani. The committee's primary focus was to enhance the depth of the forex market and suggest measures for its liberalization, contributing significantly to India's evolving external sector management policies.

5. (B) I, II, and IV only
Section 22 establishes a comprehensive licensing system for banks, while Sections 24 and 25 mandate the maintenance of liquid assets in India. Provisions regarding balance sheets and audits are contained in Sections 29 to 32. However, Section 26 requires banks to submit returns of unclaimed deposits within thirty days, rather than ninety days, after the close of the calendar year.

6. (D) Assertion (A) is false, but Reason (R) is true.
The Integrated Ombudsman Scheme 2021 provides a broad definition of deficiency in service, effectively removing the earlier practice of rejecting complaints simply because they did not fall under specific listed grounds. While the scheme maintains a defined list of exclusions, the shift towards a comprehensive definition ensures that most genuine customer grievances regarding service failures are now maintainable for adjudication.

7. (B) It created interlocking interests between banks and industries, detrimental to depositors.
Historically, before the enactment of comprehensive banking legislation, some rapidly expanding banks used unsound methods to gain control over public funds. These banks often engaged in speculative investments and trading, leading to dangerous interlocking interests between the banks and various industrial concerns. This situation posed a significant risk to depositors and necessitated the introduction of stricter regulatory and management controls.

8. (B) P-3, Q-4, R-1, S-2
The Rangarajan Committee recommendations focused on external sector management. It proposed liberalizing current account transactions towards full convertibility and shifting the composition of capital flows from

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debt to non-debt creating flows. Furthermore, the committee advised strict regulation of external commercial borrowings, particularly short-term debt, and suggested discouraging volatile elements of financial flows specifically originating from non-resident Indians.

9. (B) Hawala transactions
Under the Foreign Exchange Management Act, the Reserve Bank is designated as the compounding authority for most contraventions to facilitate easier settlement. However, this power does not extend to Hawala transactions or other serious violations involving money laundering. Such cases are typically handled by the Directorate of Enforcement through criminal or separate investigative procedures, as they involve significant legal and security implications.

10. (C) Issue a final order for the voluntary winding up of a bank without judicial intervention.
Section 36 of the Banking Regulation Act grants the Reserve Bank extensive powers to caution banks, assist in amalgamation proposals, and require management changes after inspections. However, it does not empower the Reserve Bank to issue a final order for the voluntary winding up of a bank without judicial intervention. Such legal processes generally involve court proceedings as per established statutory requirements.

11. (B) I, II, and IV only
The Integrated Ombudsman Scheme 2021 established a centralized processing center in Chandigarh and requires regulated entities to appoint high-ranking Principal Nodal Officers. It applies to specific co-operative banks with a deposit size of fifty crore rupees and above. Importantly, regulated entities are denied the right to appeal in cases where an Award is issued for failing to furnish information.

12. (A) I and II only
Sections 8 and 9 of the Banking Regulation Act prohibit banks from engaging in any trading activities or non-banking businesses. Section 10 specifically bans the employment of managing agents. While Section 11 regulates minimum paid-up capital and reserves, the specific regulation regarding the proportion between authorized, subscribed, and paid-up capital is actually addressed under Section 12 of the same Act.

13. (A) Article VIII of the IMF Articles of Agreement.
In August 1994, India officially transitioned to current account convertibility by accepting the obligations under Article VIII of the International Monetary Fund Articles of Agreement. This commitment meant that India would no longer impose restrictions on payments and transfers for current international transactions. This landmark decision reflected the success of earlier exchange rate reforms and facilitated greater global economic integration.

14. (C) To permit the Bank to provide emergency loans and advances against any security it deems sufficient.
The amendment of Section 18 of the Reserve Bank of India Act, as provided for in the Banking Regulation Act, serves a specific emergency purpose. It allows the Reserve Bank to provide financial assistance to banks against any security it considers sufficient. This provision ensures that the central bank can act effectively as the lender of last resort during financial crises.

15. (D) I, II, and III
The Integrated Ombudsman Scheme 2021 represents a major regulatory reform that consolidated three existing grievance redressal mechanisms. It merged the Banking Ombudsman Scheme of 2006, the Ombudsman Scheme for Non-Banking Financial Companies of 2018, and the Ombudsman Scheme for Digital Transactions of 2019. This unification provides a single point of reference and a simplified process for consumers across diverse sectors.

16. (A) III, I, II, IV
The evolution of banking legislation began with the Banking Companies (Inspection) Ordinance in January 1946, followed by the Banking Companies (Restriction of Branches) Bill later that year. Subsequently, the Select Committee met to discuss the draft Banking Companies Bill in 1948. Finally, the legislation originally enacted in 1949 was renamed the Banking Regulation Act through an amendment passed in 1966.

NODIA

17. (A) Reserve Bank of India
To deepen the domestic foreign exchange market, authorized dealers are permitted to release foreign exchange for various transactions and utilize innovative financial instruments like swaps and caps. These permissions are granted under the powers delegated by the Reserve Bank of India. This decentralized approach allows for greater market efficiency while maintaining the central bank's ultimate oversight over foreign exchange management.

18. (B) Section 21
Section 21 of the Banking Regulation Act provides the Reserve Bank with the power to control advances made by banking companies. It enables the central bank to determine the overall policy regarding loans, including the specific purposes for which advances may be granted. Additionally, it allows the Reserve Bank to mandate the margins to be maintained on various secured advances.

19. (D) FEMA diluted the rigorous enforcement provisions and prosecution has to prove the guilt of the accused person.
The Foreign Exchange Management Act marked a significant shift by diluting the rigorous enforcement and criminal prosecution provisions of the previous regime. Under FEMA, the burden of proof lies with the prosecution to establish the guilt of the accused person. The focus moved from the strict conservation of foreign exchange resources to the orderly management and development of the foreign exchange market.

20. (A) Banking Companies (Inspection) Ordinance, 1946
The Banking Companies (Inspection) Ordinance was promulgated in 1946 to address widespread concerns about the financial health of various banks. It aimed to curb unsound practices, such as the manipulation of accounts to present a misleading financial position. These inspections were crucial for determining whether banks were eligible for inclusion in the Second Schedule of the Reserve Bank of India Act.

21. (C) To make the mechanism jurisdiction-neutral, removing specific territorial office constraints.
The 'One Nation One Ombudsman' approach adopted in the Integrated Ombudsman Scheme 2021 aims to simplify the grievance redressal process. By making the mechanism jurisdiction-neutral, it removes the constraints of specific territorial offices for filing complaints. This allows customers to submit their grievances through a centralized system without having to identify a specific historical scheme or a particular geographical location.

22. (B) P-3, Q-4, R-1, S-2
Section 16 of the Banking Regulation Act prohibits common directors among banks to prevent conflicts of interest. Section 17 requires banks to build up a Reserve Fund by transferring a portion of their profits annually. Section 18 mandates the maintenance of a minimum cash reserve by non-scheduled banks, while Section 19 places specific restrictions on the formation of subsidiary companies.

23. (D) Part IV : Deals with the application of the Act to Co-operative banks.
The Banking Regulation Act is structured into several parts, including Part I for general provisions and Part III for winding up procedures. Part III-B addresses miscellaneous operations like the preservation of records. However, the application of the Act to co-operative banks is specifically covered under Part V, which was added through an amendment in 1965, rather than Part IV.

24. (D) Assertion (A) is false, but Reason (R) is true.
Under the Foreign Exchange Management Act, the regulatory focus shifted from restrictive control to orderly management. Genuine current account payments are generally free and do not require strict prior clearance from the Reserve Bank, unless specifically notified by the government. This liberalization facilitates smoother international trade and financial transactions while maintaining necessary oversight for broader economic stability and regulatory compliance.

25. (A) Only I
The Liberalized Exchange Rate Management System, introduced in March 1992, established a dual exchange rate mechanism as a transitional step. It required forty percent of foreign exchange earnings to be surrendered at the official rate, while the remaining sixty percent could be

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converted at market rates. This temporary framework was designed to facilitate the move toward full current account convertibility.

26. (D) Neither I nor II
The Banking Regulation Act specifically excludes certain types of co-operative societies from its regulatory scope. It does not apply to primary agricultural credit societies or to co-operative societies whose primary objective is providing long-term finance for agricultural development. These entities are governed by different sets of laws and regulations suited to their specialized functions in the rural financial ecosystem.

27. (A) The Executive Director-in-Charge of the RBI Department administering the Scheme.
Under the Integrated Ombudsman Scheme 2021, the Appellate Authority is defined as the Executive Director-in-Charge of the Reserve Bank department that administers the scheme. This official has the power to review decisions made by the Ombudsman. This internal mechanism provides an additional layer of oversight within the Reserve Bank's regulatory structure to ensure fair and consistent adjudication of complaints.

28. (A) Schemes must be approved by a resolution of two-thirds of the shareholders present in person or by proxy.
The Banking Companies Act amendment in 1950 introduced specific procedures for the amalgamation of banking companies. A key requirement is that the scheme of amalgamation must be approved by a resolution passed by a majority of two-thirds of the shareholders present in person or by proxy. This ensures that major corporate restructurings have the necessary support from the bank's ownership.

29. (C) 180 days
The Foreign Exchange Management Act provides a mechanism for compounding contraventions to simplify legal proceedings. Once a compounding application is received, the designated compounding authority is required to dispose of the matter within a timeframe of one hundred and eighty days. This ensures a relatively speedy resolution of violations through the payment of a specified financial penalty rather than prosecution.

30. (D) The Banking Companies Act, 1949 as amended in 1950
The Banking Companies Act of 1949, as amended in 1950, provides the legal basis for the Reserve Bank's control over the branch expansion of Indian banks. This includes the specific power to license the opening of new branches in territories outside India. Such regulatory oversight is necessary to monitor the international operations and risk profiles of domestic banking institutions.

NODIA

31. (C) 1 year
A complainant can approach the Ombudsman if they do not receive a reply from the regulated entity within thirty days. The maximum time limit for filing this complaint is one year from the date the initial reply was received or, if no reply was sent, one year from the expiry of the thirty-day period following the original grievance.

32. (A) I and II only
The second phase of banking sector reforms, guided by the Narasimham Committee II, focused on strengthening the financial system. Key measures included increasing the capital adequacy ratio to ensure greater resilience and assigning risk weights to open positions in foreign exchange and gold. Contrary to abolishing norms, the reforms actually tightened internationally accepted standards for income recognition and asset classification.

33. (A) Up to Rupees 20 lakh
Under the Integrated Ombudsman Scheme 2021, the Ombudsman has the authority to award compensation for actual financial losses suffered by a complainant. The maximum amount that can be awarded for such consequential losses is limited to twenty lakh rupees. This compensation is intended to restore the complainant to the position they would have been in without the service deficiency.

34. (D) Group entities, provided auctions are transparent and at arm's length.
Regulatory guidelines generally prohibit Asset Reconstruction Companies from acquiring financial assets on a bilateral basis from their sponsors, lenders, or group entities. However, an exception exists for group entities if the assets are acquired through a transparent auction process. In such cases, the transaction must be conducted

at arm's length to ensure fairness and prevent conflicts of interest.

35. (D) I, II, III, IV, and V
The Appellate Authority under the Integrated Ombudsman Scheme 2021 possesses broad powers to review the Ombudsman's decisions. These include dismissing the appeal, setting aside the original Award, or modifying the Ombudsman's order. Additionally, the authority can remand the matter for fresh disposal or pass any other order deemed fit, providing a comprehensive mechanism for secondary dispute resolution.

36. (A) FCCBs - Foreign Currency Convertible Bonds
In the context of the Indian capital market and international financing, FCCBs stands for Foreign Currency Convertible Bonds. These are debt instruments issued by Indian companies in foreign currency that can be converted into equity shares. Other common terms include American Depository Receipts and Global Depository Receipts, which represent shares of a domestic company held by foreign investors.

37. (A) Any bank, NBFC, System Participant, or Credit Information Company as defined in the Scheme.
The Integrated Ombudsman Scheme 2021 defines a Regulated Entity as any bank, Non-Banking Financial Company, System Participant, or Credit Information Company as specified within the scheme. This broad definition ensures that various financial service providers under the Reserve Bank's regulatory umbrella are subject to the same centralized and transparent grievance redressal mechanism for the benefit of all customers.

38. (D) Commercial banks were required to invest substantial portions of their liabilities in government securities at above market interest rates.
During the 1980s, the Indian banking sector was characterized by heavy regulation and dominance of public sector banks. Commercial banks were indeed required to invest significant portions of their liabilities in government securities through the Statutory Liquidity Ratio. However, these investments were typically made at interest rates that were below market levels, rather than above them, often impacting the banks' profitability.

39. (D) P-2, Q-1, R-3, S-4
Various legislative frameworks govern the Indian financial system, with the Indian Stamp Act dating back to 1899. More recent legislation includes the Recovery of Debts Due to Banks and Financial Institutions Act of 1993 and the Depositories Act of 1996. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests Act followed in 2002, providing banks with stronger recovery tools.

40. (A) Only I
If a Regulated Entity fails to file its written version within the allotted time, the Ombudsman may proceed to issue an Award ex-parte based on the available information. Crucially, the scheme specifies that the Regulated Entity does not have the right to appeal an Award that has been issued solely because of its failure to respond within the timeframe.

41. (B) Additional collateralized lending facility (ACLF)
Historically, the Reserve Bank of India managed market liquidity through various lending facilities. Scheduled commercial banks that required funds beyond the standard collateralized lending facility could access the additional collateralized lending facility. This tool allowed the central bank to provide necessary liquidity support to banks while ensuring that such loans were backed by adequate and appropriate government securities.

42. (C) The Ombudsman will reject the complaint as it involves commercial judgment of the entity.
The Ombudsman is empowered to resolve grievances related to deficiencies in service but cannot interfere with the commercial judgment of a regulated entity. If a bank rejects a loan application based on its internal credit risk policies and commercial assessment, the Ombudsman will reject the complaint. Such decisions are considered outside the scope of the grievance redressal mechanism.

43. (B) To increase operational flexibility and functional autonomy to foster efficiency.
The first phase of financial sector reforms, initiated in 1992 following the Narasimham

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Committee recommendations, primarily aimed to enhance the efficiency of the banking system. The focus was on increasing operational flexibility and functional autonomy for banks. By reducing direct government control and fostering a more competitive environment, the reforms sought to create a more dynamic and responsive financial landscape.

44. (D) Appoint Nodal Officers at Regional/Zonal Offices, with one designated as the 'Principal Nodal Officer'.
To efficiently manage complaints under the Integrated Ombudsman Scheme, banks with extensive branch networks must establish a structured internal hierarchy. They are required to appoint Nodal Officers at their Regional and Zonal Offices. Among these, one high-ranking official must be designated as the Principal Nodal Officer to serve as the primary point of contact for the Ombudsman.

45. (C) Both I and II
Significant regulatory shifts occurred in the 1990s to liberalize the Indian financial sector. The Securities and Exchange Board of India was formally established as a statutory body in February 1992 to regulate the equity markets. Similarly, the Insurance Regulation and Development Authority Act was passed in 1999, effectively ending the government monopoly and opening the insurance sector to private players.

46. (B) It includes a Core Investment Company (CIC).
Under the Integrated Ombudsman Scheme 2021, the term Non-Banking Financial Company follows the definition in the Reserve Bank of India Act. However, specific types of entities are excluded from this definition for the purposes of the scheme. These exclusions include Infrastructure Debt Funds, companies undergoing resolution or liquidation, and Core Investment Companies, which are not covered by the ombudsman's jurisdiction.

47. (A) I, II, and III only
Proposals to improve the efficiency of Debt Recovery Tribunals include allowing the electronic filing of applications and requiring debtors to deposit fifty percent of the debt due before appealing. Additionally, time limits are suggested for district magistrates to clear possession requests. However, instead of doubling stamp duty, the proposals actually aim to exempt or reduce duties when loans are sold.

48. (B) P-3, Q-2, R-1, S-4
A complaint in the Ombudsman process is considered resolved under various conditions. It might be settled directly by the Regulated Entity with the complainant or through a written agreement where the complainant accepts the extent of the resolution as satisfactory. Alternatively, the complainant may voluntarily withdraw the complaint, or the Ombudsman may reject it if the compensation sought exceeds their powers.

49. (C) Assertion (A) is true, but Reason (R) is false.
The introduction of the ninety-day delinquency norm was a significant step toward aligning Indian banking practices with international standards for income recognition. This norm ensures that income is not recognized on assets that are not performing. However, the rule specifically applies when payments are not received for a period of one quarter, rather than two quarters, after the due date.

50. (C) The Reserve Bank of India
The Integrated Ombudsman Scheme 2021 is a regulatory framework established to streamline consumer grievance redressal. If any practical difficulties arise in implementing the provisions of the scheme, the Reserve Bank of India is the authorized entity to make necessary provisions to remove those difficulties. This ensures that the scheme remains effective and adaptable to changing administrative or operational requirements.

51. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The practice of automatic monetization of government debt through ad hoc treasury bills officially ended in April 1997. This significant shift in monetary policy followed a landmark agreement signed between the Reserve Bank and the Government in September 1994. The phased removal of these bills enhanced the Reserve Bank's independence in controlling the money supply and conducting monetary policy.

NODIA

52. (D) A deficiency in service rendering by a Regulated Entity causing financial loss to the customer.
The Integrated Ombudsman Scheme 2021 specifies various types of disputes that are considered non-maintainable, such as grievances between different regulated entities or disputes involving outsourcing contracts with vendors. However, a complaint regarding a deficiency in service by a regulated entity that causes a financial loss to a customer is a core ground for which the ombudsman provides redress.

53. (C) Assertion (A) is true, but Reason (R) is false.
The Ombudsman has the authority to reject complaints at any stage if they are merely seeking guidance or offering suggestions rather than reporting a service deficiency. Furthermore, the scheme allows the Ombudsman to decline cases that involve complex issues requiring extensive documentary or oral evidence. Such complex matters are often better suited for adjudication in a court of law.

54. (C) Debts Recovery Tribunal (DRT)
Under the SARFAESI Act of 2002, banks and financial institutions are empowered to recover their dues by enforcing security interests without court intervention. However, to ensure fairness, borrowers have the right to seek redressal against such actions. The primary judicial authority for this purpose is the Debts Recovery Tribunal, which can review the legality of the measures taken by the bank.

55. (A) Low international confidence and net outflows of NRI deposits.
The balance of payments crisis in early 1991 was exacerbated by several critical factors that severely impacted India's external sector. Low international confidence in the economy led to a significant drying up of commercial borrowings and a net outflow of non-resident Indian deposits. These developments, combined with minimal foreign exchange reserves, created an urgent need for comprehensive economic and financial sector reforms.

56. (B) Rupees 1 lakh
In addition to compensation for financial loss, the Ombudsman can award an amount to address the mental anguish, loss of time, and expenses incurred by a complainant. This additional compensation is capped at a maximum of one lakh rupees. This provision recognizes the non-financial distress caused by service deficiencies while setting a clear limit on the Ombudsman's discretionary power.

57. (A) It considers as 'given' the economic functions performed in the financial system.
Functional supervision is a regulatory model that focuses on the specific economic functions performed within the financial system rather than the institutions themselves. It considers these functions as given and applies consistent regulations to any entity performing them. This approach aims to provide a level playing field and prevent regulatory arbitrage by ensuring that similar activities are treated uniformly across the market.

NODIA

58. (A) The Regulated Entity must comply within 30 days of the acceptance, unless it appeals.
Once an Award is passed by the Ombudsman and accepted by the complainant, the Regulated Entity is generally required to comply with the directions within thirty days. If the entity is dissatisfied with the decision, it may choose to file an appeal within the same timeframe. Timely compliance is essential for the effectiveness of the grievance redressal mechanism and consumer protection.

59. (C) Special Tribunals under the DRT Act, 1993.
Following the recommendations of the Tiwari Committee, the Indian government recognized the need for a faster mechanism to recover bad loans. This led to the enactment of the Recovery of Debts Due to Banks and Financial Institutions Act in 1993. Under this legislation, special Debts Recovery Tribunals were established to provide a dedicated and speedy judicial process for handling recovery claims.

60. (B) Prominently within all the various offices and branches of the bank.
To ensure that customers are aware of their right to grievance redressal, banks are required to maintain transparency regarding the Ombudsman scheme. They must prominently display the contact details of the Ombudsman and the internal grievance redressal officer within all their offices and branches. This requirement

ensures that information is easily accessible to the public at the point of service.

61. (C) They are considered to be negligible.
While some academic and policy debates discuss the merits of a single regulator versus multiple regulators, the current assessment of the Indian financial system is generally positive. Issues like regulatory overlaps, conflicts over jurisdiction, and regulatory arbitrage are currently considered to be negligible. The existing system of multiple institutional regulators is viewed as functional and effective in maintaining overall financial stability.

62. (A) I and II only
The Unit Trust of India was established by the government in February 1964 and functioned as an associate institution of the Reserve Bank until 1976. Its foundational objective was to stimulate and pool savings from the community, specifically targeting small and medium-income groups. By providing these savers with a share in industrial growth, UTI played a pioneering role in India's mutual fund industry.

63. (A) IRDA - Regulates merchant bankers and credit rating agencies.
The Indian financial system is governed by several specialized regulators. The Reserve Bank oversees banks and NBFCs, while the Securities and Exchange Board of India regulates capital markets and mutual funds. The Insurance Regulatory and Development Authority is responsible for the insurance sector. Therefore, the regulation of merchant bankers and credit rating agencies falls under SEBI's jurisdiction rather than IRDA's.

64. (C) It manages the Unified Payments Interface (UPI) for retail customers.
The Clearing Corporation of India Ltd. was established in 2001 to provide clearing and settlement services for transactions in money, government securities, and foreign exchange. It has introduced several market innovations, including the CBLO and the FX-CLEAR trading platform. However, the management of retail payment systems like the Unified Payments Interface is the responsibility of the National Payments Corporation of India.

65. (A) I, II, and III only
NABARD was established in July 1982 with an initial capital contributed by the government and the Reserve Bank, which has since been significantly increased. It serves as the apex institution for agriculture and rural development. Unlike specialized short-term lenders, NABARD provides both short-term credit and long-term loans to support various agricultural operations and rural economic activities.

66. (A) Companies Act
The National Payments Corporation of India was established as an umbrella organization for operating retail payments and settlement systems. It was incorporated as a non-profit company under Section 25 of the Companies Act of 1956, which corresponds to Section 8 of the Companies Act of 2013. This corporate structure allows NPCI to focus on developing sustainable and innovative payment infrastructures for the public.

67. (A) I, II, III, and IV
Global financial regulation and supervision generally follow four recognized broad approaches. These include institutional supervision, which focuses on specific types of entities, and functional supervision, based on economic activities. Other models include supervision by objectives, focusing on specific regulatory goals, and the single regulator model, where one authority oversees all segments of the financial market.

68. (C) Assertion (A) is true, but Reason (R) is false.
In 2004, the Industrial Development Bank of India was formally transformed into a commercial banking company to adapt to the changing financial environment. However, IDBI's historical role was as a specialized institution for industrial finance and coordination, not for agricultural development. The responsibility for agriculture and rural credit has been the primary domain of NABARD since its establishment in 1982.

69. (A) It extends lines of credit to overseas entities to finance Indian goods on deferred terms.
The Export-Import Bank of India plays a vital role in promoting India's international trade. One of its primary functions is to extend lines

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of credit to overseas governments and entities, enabling them to purchase Indian goods and services on deferred payment terms. This support helps Indian exporters compete in global markets by providing necessary financial and risk management facilities.

70. (B) 1962
The Deposit Insurance Corporation was established to provide a safety net for small depositors and enhance public confidence in the banking system. Following the enactment of the relevant legislation in 1961, the corporation officially commenced its operations in 1962. It initially provided insurance for deposits in commercial banks, a scheme that was later expanded to include cooperative banks.

71. (A) Unified Payments Interface (UPI)
The Unified Payments Interface is a sophisticated system that allows for instant, real-time fund transfers using a mobile platform. It is built upon the existing Immediate Payment Service infrastructure and allows users to make transactions using a Virtual Payment Address. This eliminates the need for sharing sensitive bank account details or IFSC codes, making mobile banking more secure and convenient.

72. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Governor of the Reserve Bank often serves as the chairman of the apex financial regulatory body in India due to the central bank's unique role. Every financial transaction eventually involves a settlement leg in the inter-bank or cash market. As the ultimate provider of liquidity and the manager of the payment system, the Reserve Bank is best positioned to lead.

73. (D) Industrial Reconstruction Bank of India (IRBI)
In 1985, the Indian government reconstituted the Industrial Reconstruction Corporation of India into the Industrial Reconstruction Bank of India. This move established a specialized agency to act as the principal credit and reconstruction body for reviving sick industrial companies. IRBI was empowered to coordinate the efforts of various institutions and provide financial assistance to struggling industrial units.

74. (C) To supplement and coordinate the activities of the existing institutions in the field of industrial finance.
The Industrial Development Bank of India was established in 1964 with a broad mandate to support the country's industrial growth. Its primary two-fold objective was to act as an apex institution to supplement and coordinate the activities of existing financial institutions. By providing direct and indirect financial assistance, IDBI aimed to ensure a comprehensive and cohesive framework for industrial development.

75. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Banking Codes and Standards Board of India was established as an autonomous body registered under the Societies Registration Act. The decision to create this independent board was driven by the belief that a self-regulatory organization would be most effective at enforcing high-quality customer service standards. BCSBI worked to ensure that banks adhered to voluntary codes of conduct for retail customers.

NODIA

76. (D) Institution based system of regulation
India follows a regulatory approach that is primarily based on an institution-based system. This means that different categories of financial intermediaries, such as banks, insurance companies, and mutual funds, are supervised by separate and dedicated regulatory authorities. This institutional model allows for specialized oversight that is tailored to the specific risks and operational characteristics of each segment of the financial sector.

77. (A) I, II, III, and IV
The National Housing Bank was established in 1988 as a wholly owned subsidiary of the Reserve Bank to promote a viable housing finance system. Headquartered in New Delhi, it regulates and provides refinance to housing finance companies. While it plays a critical role in the housing sector, it is not involved in operating retail payment networks like the National Financial Switch.

78. (D) Choice allows for hybrids and supplementing arrangements rather than extreme single models.
There is no single universal model for financial regulation that is considered ideal

for all economies. The choice between having a single regulator or multiple institutional regulators depends on the specific needs and development of a country's financial market. Modern approaches often favor hybrid models or supplemental arrangements that balance the benefits of specialization with the need for effective coordination.

79. (B) Reserve Bank of India
After the restructuring of the Unit Trust of India, the UTI Mutual Fund was promoted by four major public sector financial institutions. These include the State Bank of India, the Life Insurance Corporation of India, Bank of Baroda, and Punjab National Bank. Each of these institutions holds an equal eighteen and a half percent stake in the paid-up capital of UTI AMC.

80. (D) To enlarge its role as an apex institution for effective coordination among all institutions.
In February 1976, the Industrial Development Bank of India was de-linked from the Reserve Bank and established as an autonomous corporation. This structural change was intended to enlarge IDBI's role as the apex institution for industrial finance. As an independent body, IDBI could more effectively coordinate the activities of all financial institutions involved in the country's industrial development.

81. (C) P-2, Q-4, R-1, S-3
The National Payments Corporation of India operates several key infrastructures, including the National Financial Switch ATM network and the twenty-four-hour Immediate Payment Service. It also developed RuPay, a domestic card payment network that serves as an alternative to international schemes. Furthermore, the Unified Payments Interface allows for instant mobile-based fund transfers using a unique virtual payment address.

82. (D) I, II, and III
The High Level Committee on Capital and Financial Markets serves as a vital platform for inter-regulatory coordination in India. Its membership includes the heads of the major regulatory bodies and government departments. Specifically, the committee is composed of the Governor of the Reserve Bank, the Finance Secretary, and the Chairmen of both SEBI and the Insurance Regulatory and Development Authority.

83. (D) P-3, Q-4, R-2, S-1
Several landmark committees have shaped the Indian financial landscape. The A.D. Gorwala Committee led to the nationalization of the Imperial Bank of India, while the Sukhumoy Chakravarty Committee provided foundational recommendations for monetary reform. The Vaghul Committee's study of the money market resulted in the establishment of the DFHI, and a sub-group chaired by Dr. C. Rangarajan recommended the NHB.

84. (C) EXIM Bank
The Export-Import Bank of India offers specialized advisory services to small and medium enterprises through its Export Marketing Services Programme. This initiative is designed to help Indian companies globalize by providing assistance in identifying international opportunities and evaluating cross-border risks. Such support is crucial for enhancing the competitiveness of domestic businesses in the global marketplace and expanding their export potential.

85. (C) Both I and II
The Discount and Finance House of India was established through a joint initiative involving the Reserve Bank, public sector banks, and other financial institutions. Its primary mission is to develop and maintain an active secondary market for money market instruments. By doing so, it helps to smooth out temporary imbalances in short-term liquidity within the Indian financial system.

86. (B) Duality between the RBI and the Ministry of Finance should end, with the RBI as lead agency.
The existing duality of control over the Indian banking system, where both the Reserve Bank and the Ministry of Finance exercise authority, has been a subject of policy discussion. A recognized view is that this duality should be brought to an end. It is generally proposed that the Reserve Bank should be the lead agency with full regulatory and supervisory responsibility for banks.

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87. (B) To measure bank performance against a benchmark of best practices for customer service. The Banking Codes and Standards Board of India was created to ensure that bank customers receive a high quality of service. Its primary purpose was to benchmark bank performance against international best practices and voluntary codes of conduct. As a self-regulatory body, BCSBI aimed to foster a customer-centric culture within the banking industry and protect the interests of retail depositors.

88. (A) III, I, IV, II
The establishment of key financial institutions in India followed a specific chronological sequence. The Deposit Insurance Corporation was first in 1962, followed by the Industrial Development Bank of India in 1964. Later, in early 1982, the Export-Import Bank of India was formed. This was followed shortly thereafter by the creation of the National Bank for Agriculture and Rural Development in July 1982.

89. (B) Specified Undertaking of UTI (SUUTI)
Following the financial difficulties faced by the Unit Trust of India in 2001, the institution was bifurcated to protect the interests of investors. The assets and liabilities of schemes that received a government bailout package were transferred to the Specified Undertaking of UTI. The remaining market-linked schemes were consolidated under the UTI Mutual Fund, which is now managed by a separate asset management company.

90. (A) NABARD
NABARD serves as the apex refinancing body for the rural financial sector in India. It provides both short-term and long-term financial assistance to state co-operative banks and other eligible institutions. This enables these banks to offer credit for a wide range of agricultural operations, covering both seasonal requirements and long-term capital investments needed for sustainable rural and agricultural development.

91. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Indian banks became increasingly cautious about lending to the infrastructure sector after experiencing significant financial stress on their exposures. Infrastructure projects typically involve long gestation periods, which can lead to asset-liability mismatches on a bank's balance sheet. This structural risk served as a major disincentive for lenders, contributing to a moderation in credit flow toward large-scale infrastructure development projects.

92. (C) NARCL
The National Asset Reconstruction Company Limited was established to clean up the balance sheets of Indian banks by aggregating large non-performing assets. NARCL acquires these stressed assets by paying fifteen percent of the value in cash and the remaining eighty-five percent in government-guaranteed Security Receipts. This mechanism is designed to incentivize quicker resolution and recovery of fragmented legacy bad loans.

93. (D) P-3, Q-4, R-1, S-2
Modern digital payment systems utilize various identifiers and security codes. An IFSC code is always provided along with a bank account number to identify specific branches. The Mobile Money Identifier is a unique seven-digit number linked to a mobile phone. Additionally, the Aadhaar number can be used for fund transfers, while the MPIN is a personal password required to authorize mobile banking transactions.

94. (C) P-3, Q-4, R-1, S-2
Significant changes have occurred across several Indian financial institutions and instruments. IDBI was transformed into a commercial bank in 2004, and the Unit Trust of India was bifurcated in 2001. In the money markets, CBLOs were replaced by Tri-Party Repos in 2018. More recently, the Banking Codes and Standards Board of India was formally dissolved in September 2021.

95. (A) Only I
The National Bank for Financing Infrastructure and Development was established in 2021 to address the financing needs of the infrastructure sector. While it aims to mitigate asset-liability mismatches, these mismatches arise because infrastructure projects have long gestation periods, not short ones. NaBFID is capitalized with twenty thousand crore rupees and is recognized as an All India Financial Institution under regulatory oversight.

NODIA

Oct/Nov 2009

45. Consider the following statements regarding the Business Facilitator Model:

I. Business facilitators are authorized to process and submit applications to banks.

II. They are allowed to undertake the disbursal of small value credit.

III. Their scope of activities includes the post-sanction monitoring and hand holding of Self-Help Groups.

Which of the above statements is/are correct?

(A) Only I and II
(B) Only I and III
(C) Only II and III
(D) All I, II, and III

May/June 2016

46. What became a main objective of pursuing financial inclusion as a major policy goal in India since independence?

(A) The need to completely replace the cooperative movement with multinational banks
(B) Ensuring that all sections of society benefit from financial development regardless of economic growth levels
(C) The necessity to fund the fiscal deficit through forced savings from rural households
(D) The goal of achieving a fully cashless economy by the year 2020

Oct/Nov 2023

47. Consider the following statements regarding women's financial inclusion in India:

I. As of December 15, 2021, over 75 per cent of total account holders under the PMJDY scheme were women.

II. Over the last decade, the number of loan accounts and outstanding loans of female borrowers grew at a faster CAGR than that of male borrowers.

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2022

48. Match the Acronyms in List I with their corresponding meanings or contexts in List II.

List I: (Acronyms)

P. IIT
Q. TReDS
R. DBU
S. JAM

List II: (Meanings/Contexts)

1. Jan Dhan, Aadhaar, Mobile
2. Trade-Receivables Discounting System
3. Information, Incentives, and Transaction Costs
4. Digital Banking Units

(A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-3, Q-4, R-2, S-1
(D) P-4, Q-1, R-3, S-2

Oct/Nov 2012

49. Identify the incorrect statement concerning the dates and corresponding events.

(A) October 2022 — Introduction of the National Strategy for Financial Inclusion (NSFI)
(B) August 2014 — Inception of Pradhan Mantri Jan Dhan Yojana (PMJDY)
(C) June 2012 — RBI advised banks to set up Financial Literacy Centres (FLC)
(D) September 2021 — RBI constructed and released the national financial inclusion index (FI-Index)

May/June 2015

50. Match the strategies or plans in List I with their corresponding years or periods in List II.

List I: (Strategies/Plans)

P. National Strategy for Financial Inclusion (NSFI)
Q. National Strategy for Financial Education (NSFE)
R. Introduction of Financial Inclusion Plans (FIPs)
S. Release of the Financial Inclusion Index (FI-Index)

List II: (Years/Periods)

1. 2020-2025
2. 2010
3. 2021
4. 2019-2024

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-3, R-4, S-1

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CHAPTER 06
Financial Inclusion and Development

Oct/Nov 2020

1. The share of adjusted net bank credit (ANBC) that is mandated to go to small and marginal farmers (including sharecroppers) was set at what percentage for March 2017?
(A) 7.5 percent
(B) 8 percent
(C) 10 percent
(D) 25 percent

May/June 2005

2. Which statement correctly identifies a feature of the Pradhan Mantri Jan Dhan Yojana (PMJDY) as of December 15, 2021?
(A) The majority of PMJDY accounts are maintained exclusively by private sector banks
(B) The total deposits in PMJDY accounts witnessed a sharp decline, falling below ₹50,000 crores
(C) Women beneficiaries account for 55.6 per cent of the total account holders under the scheme
(D) PMJDY accounts are explicitly barred from being linked to Aadhaar or mobile phones

Oct/Nov 2018

3. What does the term "externalities" refer to in the context of mandated financial inclusion policies?
(A) The operational and credit risks assumed by banks when utilizing various Business Correspondents
(B) The regulatory oversight applied by international agencies to monitor national banking standards
(C) The positive social advantages of inclusion not directly captured by the financial service provider
(D) The strategic outsourcing of core banking activities to diverse third-party non-profit organizations

May/June 2023

4. Which of the following statements regarding the institutional mechanisms for easing credit flow is incorrect?
(A) The Credit Information Bureau of India Limited (CIBIL) provides individuals with one free credit report a year
(B) Bringing borrowing under Self Help Groups into the ambit of credit bureaus helps expand the reach of credit histories in rural India
(C) Digitization of land records is a complete substitute for formal state guarantees of ownership in collateralized lending
(D) "Udhyog Aadhaar" numbers are designed to allow small firms to build credit histories with credit bureaus

Oct/Nov 2009

5. Why does the requirement to explicitly pay for mandates, such as subsidising cash recyclers in remote areas, represent a sound regulatory concept?
(A) It forces the government to completely abandon priority sector lending targets
(B) It makes the cost of the mandate transparent, incentivising more efficient policy decisions
(C) It prevents commercial banks from earning any profit from their urban branches
(D) It transfers the entire financial burden of rural development onto unbanked households

May/June 2016

6. A branch manager of a large national bank faces certain infirmities compared to a local moneylender. Which of the following is NOT one of these infirmities?
(A) The branch manager is typically recruited through an all-India exam and may not be intimately familiar with the local people
(B) The branch manager lacks access to the core banking technology required to process loan applications

NODIA

(C) The high salary of bank officers creates economic viability issues for branches in remote areas
(D) Bureaucratic centralised procedures make it hard to convey the rationale for a loan for an applicant with no formal track record

Oct/Nov 2023

7. In the context of the objectives of financial inclusion, which of the following best defines the concept of "broadening" of financial services?
(A) Providing advanced wealth management and derivative products to high-net-worth urban investors
(B) Expanding formal banking access to individuals and enterprises previously excluded from the sector
(C) Increasing the per-capita transaction volume for existing customers who maintain multiple accounts
(D) Strengthening the consumer protection and literacy frameworks for established metropolitan customers

May/June 2022

8. Which of the following statements correctly describes the regulatory approach towards Know Your Customer (KYC) documentation for basic financial services?
(A) Customers migrating inside the country must present at least three different official documents to update their current address
(B) A very basic account with some restrictions on amounts and transactions can be obtained with no official documents whatsoever
(C) Proof of address is strictly mandatory and cannot be self-certified by the account owner under any circumstances
(D) The Reserve Bank of India prohibits the Indian Banks' Association from devising common account forms

Oct/Nov 2012

9. Identify the incorrect statement regarding the handling of borrower defaults and bankruptcy.
(A) Systems that allow for strong enforcement of repayment reduce the credit risk margin lenders charge
(B) Borrowers who make bad choices or have bad luck should escape all responsibility and be guaranteed total loan waivers without consequences
(C) Strong enforcement of repayment can impose larger costs on unfortunate borrowers who end up in adverse situations
(D) Individuals declaring bankruptcy should be relieved of their debts but must face consequences such as losing assets and being excluded from borrowing for a period

May/June 2015

10. What is the prescribed time frame for the National Strategy for Financial Education (NSFE)?
(A) 2019-2024
(B) 2018-2023
(C) 2020-2025
(D) 2021-2026

Oct/Nov 2013

11. Local financial institutions have faced various deficiencies despite their successes. Which of the following is NOT one of the deficiencies mentioned?
(A) Micro finance institutions do not have access to low-cost deposit financing
(B) Local area banks could not expand out of their local area, exposing them to geographical concentration risks
(C) Some successful cooperative banks suffer from governance problems and split supervision with state authorities
(D) Regional rural banks successfully maintained low salary structures by avoiding parity with parent commercial bank pay scales

May/June 2008

12. The Financial Inclusion Index (FI-Index) constructed by the Reserve Bank of India represents which specific dimensions of financial inclusion?
(A) Performance metrics related to the profitability, liquidity, and solvency of remote rural branches
(B) Behavioral metrics including transaction frequency, average balances, and historical default rates
(C) Indicators measuring access to infrastructure, usage of services, and the quality of inclusion
(D) Technological metrics tracking digital literacy, general internet penetration, and

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mobile ownership

Oct/Nov 2017

13. Which of the following statements regarding the conduct of Financial Literacy Camps is correct?
(A) Camps must be conducted monthly by both Financial Literacy Centres and all rural bank branches
(B) Financial Literacy Camps are exclusively conducted by urban branches on an annual basis
(C) Only Non-Governmental Organizations are authorized to conduct Financial Literacy Camps
(D) Banks are advised to completely halt outdoor Financial Literacy Camps to focus on digital awareness

May/June 2006

14. The concept of the "impossible trinity" in the context of lending regulations suggests that a regulator cannot simultaneously achieve which three conditions?
(A) Mandate universal account opening, prevent fraud, and ensure bank profitability
(B) Reduce transaction costs, eliminate loan defaults, and expand credit to micro-enterprises
(C) Limit interest rates, prohibit taking collateral, and maintain high borrower access to loans
(D) Enforce strict KYC norms, allow anonymous peer-to-peer lending, and maintain a stable financial system

Oct/Nov 2008

15. Which of the following activities is NOT included in the scope of activities for Business Facilitators?
(A) Identification of borrowers and fitment of activities
(B) Collection and preliminary processing of loan applications
(C) Promotion and nurturing of Self-Help Groups/Joint Liability Groups
(D) Disbursal of small value credit and the routine collection of small value cash deposits

May/June 2024

16. What characterizes a "small finance bank" in terms of its structural definition and targeted service delivery?
(A) A bank whose "small" designation refers to its target customer base rather than its physical scale
(B) A bank whose operations are strictly limited by the specific geographic size of its territory
(C) A bank characterized by the significantly limited capital base required for its initial licensing
(D) A bank restricted to operating exclusively in unbanked rural villages with a population under 2000

Oct/Nov 2021

17. Identify the incorrect statement concerning the Business Correspondent (BC) model.
(A) The activities undertaken by Business Correspondents are conducted outside the normal course of the bank's banking business
(B) Registered NBFCs not accepting public deposits may act as Business Correspondents
(C) Post Offices are eligible to act as Business Correspondents
(D) The preservation and protection of the security and confidentiality of customer information in the custody of BCs must be dealt with by the banks

May/June 2013

18. On which date were seventy-five digital Banking units (DBU) launched across seventy-five districts all over India?
(A) 15th August 2021
(B) 16th October 2022
(C) 1st April 2020
(D) 31st March 2021

Oct/Nov 2015

19. Which of the following statements regarding the function of Priority Sector Lending Certificates?
(A) They are certificates issued to borrowers guaranteeing them a fixed interest rate for the duration of their loan
(B) They are digital tokens that entirely replace the need for physical collateral in agricultural lending
(C) They serve as proof of identity for MSMEs seeking to register on the Udhyog Aadhaar

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recyclers) considered an appropriate regulatory approach?
(A) It shifts the entire financial risk to the customer through higher interest rates
(B) It ensures costs are transparent, borne by authorities, and delivered by efficient providers
(C) It allows banks to completely bypass priority sector lending norms
(D) It restricts competition by ensuring only public sector banks receive the subsidies

May/June 2005

34. Consider the following statements regarding financial inclusion and monetary policy transmission:
I. Financial inclusion improves the transmission of interest rate-based monetary policy by shifting preferences from cash to interest-bearing bank deposits.
II. As financial inclusion increases, the interest rate sensitivity of money balances in the economy goes down.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2010

35. Match the initiatives in List I with their primary benefits in List II.
List I: (Initiatives)
P. Unified Payment Interface (UPI)
Q. Udhyog Aadhaar
R. Digitisation of land records
S. Priority Sector Lending Certificates
List II: (Primary Benefits)
1. Allows small firms to build credit histories with credit bureaus
2. Eases the use of land as collateral against which funds can be borrowed
3. Allows a lender to sell over-achievement in target categories to deficient lenders
4. Makes account to account transfers easier through mobile phones
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-3, S-1

NODIA

May/June 2021

36. Consider the following statements regarding the JAM trinity:
I. JAM stands for Jan Dhan Yojana, Aadhaar, and Mobile.
II. It was a game changer for welfare schemes under direct benefit transfers (DBTs) and significantly impacted financial inclusion.
III. During the pandemic, the JAM trinity was leveraged to support and save livelihoods.
Which of the above statements is/are correct?
(A) Only I and II
(B) Only I and III
(C) Only II and III
(D) All I, II, and III

Oct/Nov 2006

37. What is described as the fundamental way to deal with the exploitation of the financially excluded by usurious moneylenders or corrupt bankers?
(A) Increasing competition amongst suppliers of financial services
(B) Implementing absolute prohibitions on the taking of collateral for all loans
(C) Mandating that all rural credit be disbursed exclusively through direct government cash transfers
(D) Forcing all borrowers to declare bankruptcy immediately upon facing crop failure

May/June 2019

38. Match the intermediaries and activities in List I with their correct classification in List II.
List I: (Intermediaries/Activities)
P. Well-functioning Panchayats
Q. Disbursal of small value credit
R. Creating awareness about savings
S. Registered NBFCs not accepting public deposits
List II: (Classification)
1. Scope of activities for Business Correspondents
2. Eligible entity for Business Facilitator Model
3. Eligible entity for Business Correspondent Model
4. Scope of activities for Business Facilitators
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-4, R-1, S-3

Correspondent Model regarding the scope of services?
(A) Facilitators focus on small value credit disbursal while Correspondents focus on deposit mobilization
(B) Facilitators provide financial literacy while Correspondents manage complex bank investment portfolios
(C) Facilitators require central bank approval while Correspondents operate under delegated board power
(D) Facilitators do not conduct core banking business, which is a function reserved for Correspondents

Oct/Nov 2019

27. Which of the following is NOT cited as one of the major impediments to achieving financial inclusion?
(A) A lack of sophisticated financial innovations entering the market
(B) The excluded population may live in remote areas
(C) Difficulty in servicing sections of the population with ease and profitability
(D) Lack of necessary institutional arrangements in terms of providing financial incentives to drivers of the process

May/June 2025

28. The Financial Inclusion index (FI-Index) constructed by the RBI is based on how many indicators?
(A) 60 indicators
(B) 75 indicators
(C) 97 indicators
(D) 100 indicators

Oct/Nov 2007

29. Which of the following statements regarding the Small Finance Bank is incorrect?
(A) The term "small" refers to the kind of customer the bank deals with, not its size
(B) The licenses for small finance banks have been largely given to micro-finance institutions and one local area bank
(C) It is mandated that 75% of the loans provided by a small finance bank must be below 25 lakhs
(D) There is no reason why these licenses cannot be given to regional rural banks and co-operatives in the future

May/June 2014

30. What is the conceptual rationale for introducing the Trade-Receivables Discounting System (TReDS)?
(A) To permit large buyers to delay payments to MSMEs indefinitely without incurring any interest penalties
(B) To act as a primary credit bureau for evaluating the default risk of individual farm workers
(C) To serve as an exclusive digital platform for agricultural priority sector lending certificates
(D) To allow MSMEs to sell claims on large buyers, improving liquidity and reducing transaction costs

Oct/Nov 2016

31. Arrange the following strategies and frameworks in the correct chronological order of their respective timeframes or launch years:
I. Launch of seventy-five digital Banking units (DBUs)
II. National Strategy for Financial Education (NSFE) starting year
III. National Strategy for Financial Inclusion (NSFI) starting year
IV. RBI coming out with 5 principles for banks in dealing with customers
(A) IV, III, II, I
(B) IV, II, III, I
(C) III, IV, I, II
(D) III, II, IV, I

May/June 2018

32. Identify the incorrect pair regarding the institutional limitations of financial intermediaries.
(A) Micro finance institutions — Do not have access to low-cost deposit financing
(B) Small finance banks — Restricted from using technology to augment their low-cost structure
(C) Local area banks — Exposed to geographical concentration risks
(D) Regional rural banks — Find their costs are not optimally suited for their clientele after achieving salary parity

Oct/Nov 2022

33. Why is explicit payment or fixed subsidy for fulfilling mandates (such as setting up cash

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portal
(D) They allow a lender to sell any over-achievement in particular priority sector categories to others who are deficient

May/June 2020

20. In setting interest rate ceilings for micro-finance firms, regulators seek a "Goldilocks quality." What does this conceptual quality entail?
(A) Rates set high enough to prevent borrower exploitation but low enough to maintain lending incentives
(B) Rates set high enough to completely eliminate all credit risk for the lender regardless of the borrower's profile
(C) Rates set low enough to serve as a prince subsidy, accepting that the regulated lender will operate at a permanent loss
(D) Rates perfectly pegged to the international benchmark rates without any adjustment for local fixed costs

Oct/Nov 2005

21. Which of the following is NOT identified as a risk emanating from policy mandates for financial inclusion?
(A) There is no market test of usefulness to measure the value of the enhanced social status generated
(B) Vested interests may benefit from specific mandates and push for their perpetuation long after they cease being useful
(C) Policy mandates trigger the automatic and immediate recapitalisation of all public sector banks by the central government
(D) Bankers may mislabel normal activity so that it fits in the eligible list to achieve targets at the least cost

May/June 2017

22. In the context of impediments to achieving financial inclusion, what does the acronym IIT stand for?
(A) Interest, Institutions, and Transparency
(B) Information, Incentives, and Transaction Costs
(C) Income, Investment, and Technological Capability
(D) Illiteracy, Inaccessibility, and Targeted Subsidies

Oct/Nov 2024

23. How does financial inclusion conceptually influence the transmission of interest rate-based monetary policy?
(A) It decreases the interest rate sensitivity of the population by locking their funds in long-term non-withdrawable accounts
(B) It isolates rural economies from macroeconomic policy shifts, making monetary policy entirely irrelevant for them
(C) It restricts central banks from adjusting short-term money market rates due to fear of mass defaults
(D) It causes a shift in preference from cash to interest-bearing bank deposits, increasing the interest rate sensitivity of money balances

May/June 2010

24. Which statement regarding the Financial Inclusion Index (FI-Index) is incorrect?
(A) The FI-Index was constructed and released for the public in September 2021
(B) The index takes values from 0 to 100, implicitly setting the goal for the RBI at 100 per cent financial inclusion
(C) The index incorporates indicators related to financial literacy and consumer protection
(D) The index ignores usage and quality metrics, focusing solely on the supply of physical banking infrastructure

Oct/Nov 2011

25. Which statement accurately reflects the Reserve Bank of India's guidelines on natural calamities?
(A) Banks are strictly prohibited from restructuring agricultural loans if widespread crop losses occur
(B) Banks may provide need-based loan restructuring without NPA classification during widespread crop losses
(C) Restructured agricultural loans due to widespread crop losses must immediately be classified as Non-Performing Assets (NPA)
(D) The guidelines mandate that all outstanding loans in a calamity-hit area must be written off completely at the government's expense

May/June 2009

26. How does the Business Facilitator Model fundamentally differ from the Business

NODIA

Oct/Nov 2014

39. Consider the following statements based on the progress of financial inclusion from March 2010 to December 2021:

I. The number of Basic Savings Bank Deposit Accounts (BSBDA) through BCs decreased significantly over this period.

II. Total banking outlets in villages through BCs grew to constitute more than 95 per cent of the total banking outlets in villages by end-March 2021.

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2012

40. Match the Entities in List I with their corresponding reports or initiatives in List II.

List I: (Entities)

P. International Monetary Fund (IMF)
Q. UN Capital Development Fund (UNCDF)
R. Reserve Bank of India (RBI)
S. Government of India

List II: (Reports/Initiatives)

1. Financial Inclusion Index (FI-Index)
2. Financial Access Survey (FAS)
3. Pradhan Mantri Jan Dhan Yojana (PMJDY)
4. Evidence of FI contributing to stable financial systems

(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2025

41. Consider the following statements regarding flexibility and forgiveness in credit repayment:

I. The RBI guidelines allow banks to provide need-based restructuring of agricultural loans without classifying them as NPA during widespread crop losses.

II. It is suggested that student loans be structured with an optional moratorium period.

III. Effective credit systems generally oppose any mechanism allowing individuals to declare bankruptcy to prevent excessive borrowing.

Which of the above statements is/are correct?

(A) Only I and II
(B) Only I and III
(C) Only II and III
(D) All I, II, and III

May/June 2007

42. What is the most significant impact of the JAM trinity in the context of financial inclusion?

(A) It successfully eliminated the need for all physical bank branches across the country
(B) It was designed exclusively to monitor the grievance redressal process of urban cooperative banks
(C) It facilitated direct benefit transfers and acted as a major catalyst for deposit-side inclusion
(D) It replaced the TReDS platform for discounting MSME trade receivables

Oct/Nov 2018

43. Identify the correct pair of entities eligible to act under the Business Correspondent Model.

(A) Well-functioning Panchayats and Krishi Vigyan Kendras
(B) Post Offices and registered NBFCs not accepting public deposits
(C) Large national banks and foreign central banks
(D) Village Knowledge Centres and Agri Clinics

May/June 2023

44. Match the conceptual terms in List I with their appropriate contexts in List II.

List I: (Conceptual Terms)

P. Externalities
Q. Goldilocks quality
R. Impossible trinity
S. Window-dressing

List II: (Contexts)

1. Short-term end-of-year credit used to artificially meet priority sector targets
2. Positive social benefits to financial inclusion not captured by the service provider
3. Suggests you cannot limit interest rates, prohibit collateral, and still expect loan access
4. Interest rate ceilings that are neither too high for the poor nor too low to kill lending incentives

(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-1, R-2, S-4

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96. (B) I, III, and IV only
The National Asset Reconstruction Company Limited was incorporated by various financial institutions, with public sector banks holding the majority stake. It acquires stressed assets through a mix of fifteen percent cash and eighty-five percent Security Receipts. To support the recovery process, the government provides a guarantee on the Security Receipts to cover any shortfall between their face value and the actual realization.

97. (A) Its sole objective is to provide guarantee cover to large corporate borrowers.
The Deposit Insurance and Credit Guarantee Corporation was formed through the merger of the Deposit Insurance Corporation and the Credit Guarantee Corporation of India in 1978. Its primary objective is to provide a safety net for small depositors and promote financial stability. It does not provide guarantee cover to large corporate borrowers, as its mandate is specifically focused on protecting retail banking customers.

98. (B) P-3, Q-1, R-2, S-4
India's All India Financial Institutions have distinct focus areas. The Export-Import Bank of India specializes in financing international trade, while NABARD oversees agriculture and rural development. The National Housing Bank is the apex regulator and refinancer for the housing finance sector. Most recently, NaBFID was established to provide dedicated long-term financing for major infrastructure projects across the country.

99. (D) I, II, III, IV, and V
The Prompt Corrective Action framework for Non-Banking Financial Companies uses several indicators to trigger regulatory intervention. For Threshold I, these include a CRAR between twelve and fifteen percent, a Tier I capital ratio between eight and ten percent, and a net NPA ratio between six and nine percent. Additionally, the framework monitors the leverage ratio and the ratio of adjusted net worth to risk-weighted assets.

100. (C) 17 per cent
The economic crisis of 1991 was one of the most severe in India's history, characterized by a near-total depletion of foreign exchange reserves. This period was also marked by intense inflationary pressure on the domestic economy. By August 1991, the annualized rate of inflation had peaked at seventeen percent, highlighting the urgent need for the subsequent structural and stabilization reforms.

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Oct/Nov 2013

51. Consider the following statements regarding interest rate ceilings and exploitation:

I. Regulators are often requested to set interest rate ceilings to protect the poor from usurious rates.

II. If the interest rate ceiling is set too low, regulated lenders will easily cover their fixed costs of making, monitoring, and recovering small loans.

III. When competition from regulated lenders is stifled, the poor borrower is left to the mercies of unregulated moneylenders.

Which of the above statements is/are correct?

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

May/June 2008

52. Arrange the following policy initiatives and indices in the correct chronological order of their introduction or release:

I. Launch of the Financial Inclusion Index (FI-Index)

II. Inception of the Pradhan Mantri Jan Dhan Yojana (PMJDY)

III. Introduction of Financial Inclusion Plans (FIPs) by the Reserve Bank

IV. Advice to banks to set up Financial Literacy Centres (FLC) in all districts

(A) III, IV, II, I
(B) III, II, IV, I
(C) IV, III, II, I
(D) II, III, I, IV

Oct/Nov 2017

53. Match the Financial Inclusion Plan particulars in List I with their values as of December 2021 in List II.

List I: (FIP Particulars)

P. Total Banking Outlets in Villages - BCs
Q. BSBDA - Total (Amt. in crore)
R. KCC - Total (Amt. in crore)
S. Banking Outlets in Villages - Branches

List II: (Values)

1. 2,13,646
2. 53,249
3. 6,93,596
4. 18,44,732

(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-3, R-1, S-2

May/June 2006

54. Consider the following statements regarding food inflation during the pandemic period:

I. Food inflation reflects the incidence of supply shocks on the production of items to which inflation is particularly reactive.

II. Policy interventions managed to temper food inflation to 3.5 per cent in April-November 2021.

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2008

55. Identify the correct pair regarding the target percentages for priority sector lending set for March 2017.

(A) Adjusted net bank credit to small and marginal farmers — 8 percent
(B) Adjusted net bank credit to micro enterprises — 8 percent
(C) Adjusted net bank credit to small and marginal farmers — 7.5 percent
(D) Adjusted net bank credit to micro enterprises — 10 percent

May/June 2024

56. When small businesses complain about the high cost of credit, what is often the most significant contributing factor?

(A) The credit risk margin influenced by institutional infrastructure
(B) The excessively high real policy rate set by the central bank
(C) The operational taxes imposed by state governments on micro-enterprises
(D) The mandatory requirement to use the Unified Payment Interface (UPI) for all transactions

Oct/Nov 2021

57. Consider the following statements regarding Small Finance Banks:

I. The RBI created small finance banks as an institutional avenue to fulfil the mission of providing services to the excluded.

II. At least 50% of the loan portfolio of a small

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Which of the above statements is/are correct?
(A) Only I, II, IV, and V
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2014

79. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): Financial inclusion improves the transmission of interest rate-based monetary policy.
Reason (R): As inclusion increases, the preference of individuals shifts from cash savings to interest-bearing bank deposits.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

80. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): The local moneylender is often effective in assessing credit worthiness.
Reason (R): The branch manager of a large national bank is typically recruited through an all-India exam and may not be intimately familiar with the local population.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

81. A farmer takes a crop loan from a bank, but a severe cyclone destroys the crops across the district. According to standard guidelines for natural calamities, what action should the bank take?
(A) Seize all assets immediately.
(B) Force the farmer to take an unsecured loan from a moneylender to pay the EMI.
(C) Provide need-based loan restructuring without classifying the debt as a Non-Performing Asset
(D) Label the farmer a permanent defaulter in the local newspaper.

NODIA

May/June 2007

82. Consider the following statements regarding the impediments to achieving financial inclusion:
I. The excluded may live in remote areas or belong to communities that undertake economic activity informally without maintaining records.
II. Borrowers often lack collateral to pledge, leading lenders to perceive higher repayment risks.
III. Fixed costs in transacting small loans are relatively high, acting as a transaction cost impediment.
IV. A large national bank branch manager is often intimately familiar with local people because they are typically recruited from the same regional district.
V. Impediments are characterized by the acronym IIT: Information, Incentives, and Transaction Costs.
Which of the above statements is/are correct?
(A) Only I, II, III, and V
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2018

83. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): Financial inclusion places financial products in the hands of larger sections of society.
Reason (R): Broadening and deepening financial products across larger sections of society tends to strengthen the tools of monetary policy.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

63. Consider the following statements regarding KYC and customer protection:
I. RBI requires multiple documents showing both temporary and permanent addresses to open a basic account.
II. Current address can be self-certified by the account owner to facilitate migration inside the country.
III. RBI introduced 5 principles in 2015 that banks must follow in dealing with customers.
IV. Banks are required to implement the Charter of Consumer Rights and appoint an internal ombudsman.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, and IV

May/June 2010

64. A government offers a direct, fixed monetary payout to any entity that successfully operates a cash machine in remote areas where operating costs are high. Which regulatory concept does this reflect?
(A) Imposing blind mandates regardless of commercial viability
(B) Recapitalising public sector banks completely
(C) Ensuring mandate transparency through the provision of a fixed regulatory subsidy
(D) Triggering the "impossible trinity" of interest rate controls

Oct/Nov 2011

65. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): Financially included economic agents appear to be able to ride out interest rate cycles counter-cyclically instead of being impacted pro-cyclically.
Reason (R): Evidence indicates that financial inclusion contributes to the stability of financial systems.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

66. Which of the following represents a reasonable regulatory compromise to the dilemma where banks avoid unsecured risk due to collateral restrictions?
(A) Permitting collateral on ordinary loans while qualifying only unsecured credit for priority sector targets
(B) Banks must deny credit to anyone possessing collateral.
(C) The government must provide a blanket guarantee for all student loans unconditionally.
(D) All borrowers must sell their collateral through the TReDS platform before applying for a loan

Oct/Nov 2019

67. Consider the following statements regarding Digital Banking Units (DBUs):
I. Seventy-five DBUs were launched in seventy-five districts across India on 16th October 2022.
II. DBUs are established purely as virtual platforms without any brick-and-mortar outlets.
III. DBUs provide banking facilities such as opening savings accounts, investing in term deposits, and fund transfers.
IV. The establishment of DBUs involved support from PSBs, Private Sector Banks, and a Small Finance Bank.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, and IV

NODIA

May/June 2025

68. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): Various Trade-Receivables Discounting Systems (TReDS) platforms have been licensed to provide discounting facilities for MSMEs.
Reason (R): MSMEs often face payment delays from large buyers, and TReDS allows them to sell claims on these buyers to access funds quickly.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

69. Why might a newly posted branch manager of a commercial bank face greater difficulty in accurately assessing creditworthiness compared to a local moneylender in a rural setting?
(A) Managers lack intimate local familiarity due to all-India recruitment and rotation policies
(B) Branch managers are prohibited from conducting physical site visits in rural territories
(C) The moneylender operates exclusively through digitized credit assessment platforms
(D) Commercial banks are only authorized to lend to large corporate entities in urban centers

May/June 2014

70. Consider the following statements regarding financial literacy and consumer protection:
I. Financial Literacy Camps are to be conducted at least once a month by both FLCs and all rural branches.
II. RBI advised banks to set up Financial Literacy Centres (FLC) in all districts of the country in June 2012.
III. Banks are required to implement the Charter of Consumer Rights and appoint an internal ombudsman.
IV. RBI focuses on mitigating the mis-selling of third-party products like insurance.
V. The Integrated Ombudsman scheme put in place by RBI explicitly excludes grievance redressal for rural areas.
Which of the above statements is/are correct?
(A) Only I, II, III, and IV
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2016

71. Local financial institutions have faced various deficiencies despite their successes. Which of the following is NOT one of the deficiencies mentioned?
(A) Micro finance institutions do not have access to low-cost deposit financing
(B) Local area banks could not expand out of their local area, exposing them to geographical concentration risks
(C) Some successful cooperative banks suffer from governance problems and split supervision with state authorities
(D) Regional rural banks successfully maintained low salary structures by avoiding parity with parent commercial bank pay scales

May/June 2018

72. Consider the following statements regarding the RBI guidelines for engaging Business Correspondents (BCs):
I. Banks must formulate a Policy with the approval of their Board.
II. Banks must detail the KYC and AML procedures to be followed by BCs while dealing with customers.
III. Engagement of BCs involves reputational, legal, and operational risks that banks must consider.
IV. Activities of BCs should be monitored through Controlling Offices at least once in five years.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, and IV

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Oct/Nov 2022

73. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): A credit system should possess some flexibility in repayment for borrowers who face adverse situations.
Reason (R): Strong enforcement of repayment can impose large costs on unfortunate borrowers and may permanently penalize them.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

74. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): Mandated account opening creates a universal network with positive network externalities.
Reason (R): Direct transfer of benefits and account-to-account transfers via mobile phones become easier when a vast majority of beneficiaries have a bank account.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

75. A local bank denies all educational loans because the regulator prohibited the taking of collateral for small loans, and the bank does not want to take unsecured risk. This scenario illustrates which regulatory dilemma?
(A) The positive externalities of mandated account opening.
(B) The network benefits derived from the JAM trinity.
(C) The geographical concentration risk of local area banks.
(D) The "impossible trinity" where limiting collateral and interest rates reduces loan access

May/June 2021

76. Consider the following risks emanating from policy mandates for financial inclusion:
I. There is no market test of usefulness to measure the value of enhanced social status.
II. Vested interests may benefit from specific mandates and push for their perpetuation.
III. Bankers may target the most accessible and least risky in the eligible category to achieve mandates at the least cost.
IV. Mandates automatically ensure that banks earn significantly higher profit margins from priority sector loans.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, and IV

Oct/Nov 2006

77. Which institution is specifically designed to combine local knowledge with technology to serve excluded populations, while adhering to a mandate that at least 50% of the loan portfolio must be in loans and advances of up to Rs. 25 lakhs?
(A) Regional Rural Bank
(B) Urban Cooperative Bank
(C) Credit Information Bureau
(D) Small Finance Bank

May/June 2019

78. Consider the following statements regarding payment systems and the extension of credit:
I. Many organizations working with the poor require them to save before receiving loans.
II. Expanding cash-in-cash-out points, such as through the Aadhaar Enabled Payment System, makes formal savings more attractive.
III. DBUs provide purely digital non-banking services and prohibit investments in term deposits.
IV. Full-service entities help small businesses with marketing and logistics while tying up with finance companies to provide credit.
V. The RBI proposes to encourage peer-to-peer lending platforms with light-touch regulation.

NODIA

ANSWERS

1. (B) 8 percent
Priority sector lending guidelines in India establish specific targets to ensure credit flow to vulnerable economic segments. For the period ending March 2017, the Reserve Bank of India mandated that adjusted net bank credit to small and marginal farmers reach this specified level. This policy supports agricultural development by focusing on farmers with limited land holdings.

2. (C) Women beneficiaries account for 55.6 per cent of the total account holders under the scheme
The Pradhan Mantri Jan Dhan Yojana has significantly advanced deposit-side financial inclusion across India since its inception. Official data from December 2021 indicates that female account holders represent more than half of the total beneficiaries. This highlight reflects the scheme's success in reaching gender-specific targets and ensuring that women are integrated into the formal banking system.

3. (C) The positive social advantages of inclusion not directly captured by the financial service provider
Mandated financial inclusion policies often generate broader societal benefits that extend beyond the immediate transaction between a bank and its customer. These effects include improved welfare, better health outcomes, and enhanced social status for the underserved. Because individual service providers cannot easily monetize these collective gains, they are considered external factors that justify government policy interventions.

4. (C) Digitization of land records is a complete substitute for formal state guarantees of ownership in collateralized lending
Institutional mechanisms like credit bureaus and digitization projects aim to reduce information asymmetry and facilitate credit flow. While digitizing land records improves transparency and eases the use of land as collateral, it does not replace the necessity for legal state guarantees of ownership. Effective lending still requires robust legal frameworks to ensure that collateral is enforceable.

5. (B) It makes the cost of the mandate transparent, incentivising more efficient policy decisions
Regulatory concepts that involve explicit payments for social mandates ensure that the financial burden of policy goals is clearly identified. When authorities provide fixed subsidies for services like remote cash recyclers, the true cost of the policy becomes visible. This transparency allows for better fiscal planning and encourages the selection of the most cost-effective service providers.

6. (B) The branch manager lacks access to the core banking technology required to process loan applications
Commercial bank managers in rural areas often struggle with institutional limitations compared to local moneylenders. These include a lack of local familiarity due to all-India recruitment and high operational costs relative to small loan sizes. However, these managers maintain full access to advanced core banking technologies, which is a significant advantage rather than a deficiency or infirmity.

7. (B) Expanding formal banking access to individuals and enterprises previously excluded from the sector
Financial inclusion objectives are categorized into broadening and deepening the reach of services. Broadening specifically refers to the horizontal expansion of the banking network to reach unbanked populations. This process ensures that individuals and small businesses who were formerly reliant on informal credit sources are brought into the regulated financial ecosystem to foster equitable economic growth.

8. (B) A very basic account with some restrictions on amounts and transactions can be obtained with no official documents whatsoever
The Reserve Bank of India has simplified documentation requirements to facilitate easier access to banking for migratory and low-

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May/June 2023

84. If a community-based organization appointed as a Business Facilitator begins accepting and holding small value cash deposits from villagers on a daily basis, how does this align with their designated role?
(A) It is perfectly aligned with the Business Facilitator scope of activities.
(B) It is a requirement under the National Strategy for Financial Education (NSFE).
(C) It violates the model, as facilitators are not authorized to conduct core banking activities like deposit collection
(D) It is legally sanctioned by Udhyog Aadhaar registration.

Oct/Nov 2009

85. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): Setting interest rate ceilings very low ensures that regulated lenders will extend credit to the poorest borrowers.
Reason (R): Regulated lenders need to recoup credit risk margins and the fixed costs of managing small loans for lending to be viable.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

86. Consider the following statements regarding the Financial Inclusion Index (FI-Index):
I. It was released for the public by the RBI in September 2021.
II. The index is based on 97 indicators.
III. It incorporates indicators representing inequality in access and usage, including financial literacy and protection.
IV. The index takes values from 0 to 1000, implicitly setting the goal at 1000.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) All I, II, III, IV, and V

NODIA

Oct/Nov 2023

87. What is the most likely outcome if a regulator sets an interest rate ceiling too low to cover operational costs?
(A) Regulated lenders will rapidly expand their loan portfolios.
(B) Regulated lenders will withdraw, leaving borrowers to high-cost unregulated moneylenders
(C) The credit risk margin will decrease automatically.
(D) Moneylenders will immediately lower their interest rates to match the cap.

May/June 2022

88. Consider the following statements regarding the relationship between financial inclusion and monetary policy:
I. Financial inclusion enhances the potency of interest rate-based monetary policy by increasing the number of people responsive to interest rate cycles.
II. The preference of financially included individuals shifts from cash to interest-bearing bank deposits.
III. As interest rate sensitivity of the population increases, central banks need to move interest rates by a greater margin to achieve their objectives.
IV. During the pandemic, the RBI utilized unconventional measures to maintain finance flow to afflicted sections.
V. Stabilising farm incomes and food availability via transfers helped temper food inflation during the pandemic.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) All I, II, III, IV, and V

Oct/Nov 2012

89. A commercial bank plans to expand its credit operations into a remote village where most villagers lack formal documents. The bank decides to use local community-based organizations to identify borrowers, collect preliminary loan applications, and create awareness about savings, without these organizations conducting actual banking business. Which model is the bank implementing?
(A) Unified Payment Interface Model

(B) Business Facilitator Model
(C) Business Correspondent Model
(D) Small Finance Bank Model

May/June 2015

90. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.
Assertion (A): Banks are now required to meet their priority sector targets at the end of every quarter, rather than at the end of the year.
Reason (R): Meeting targets at the end of every quarter reduces the scope for window-dressing with short-term end-of-year credit.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

91. How does increased financial inclusion, where individuals shift savings from cash to interest-bearing bank deposits, affect the potency of a central bank's monetary policy?
(A) It decreases the potency by making people immune to interest rate cycles.
(B) It enhances potency by increasing the economy's overall interest rate sensitivity
(C) It isolates the banking sector from the broader economy.
(D) It forces the central bank to rely entirely on cash reserve ratios.

May/June 2008

92. A brick-and-mortar outlet that provides digital banking facilities such as account opening, fund transfers, and tax payments via core banking infrastructure is known as a:
(A) Financial Literacy Centre (FLC)
(B) Credit Information Bureau
(C) Digital Banking Unit (DBU)
(D) Trade-Receivables Discounting System (TReDS) kiosk

Oct/Nov 2017

93. When a borrower faces permanent destitution and is unable to repay a debt despite restructuring, which "last choice" mechanism is typically suggested to relieve the debt?
(A) Committing the borrower to bonded labour.
(B) Transferring the debt obligation to the local government.
(C) Erasing the credit history through Udhyog Aadhaar.
(D) Allowing bankruptcy declaration, leading to debt relief but temporary exclusion from credit

May/June 2006

94. As the interest rate sensitivity of a population increases due to higher financial inclusion, how does it affect the margin by which a central bank must move interest rates to achieve its objectives?
(A) The central bank must move interest rates by a larger margin.
(B) The central bank loses the ability to influence money market rates.
(C) The central bank needs to move interest rates by less.
(D) The central bank must permanently freeze the policy rate.

Oct/Nov 2008

95. A technology that facilitates frictionless account-to-account transfers via a mobile app using an alias (e.g., name@bank) without a point-of-sale machine is:
(A) Unified Payment Interface (UPI)
(B) Udhyog Aadhaar
(C) Financial Inclusion Index (FI-Index)
(D) Priority Sector Lending Certificates

May/June 2024

96. When a bank's lending activities improve a borrower's social status or community health in a way that the bank cannot directly monetize, these benefits are known as:
(A) Transaction costs
(B) Externalities
(C) Information asymmetries
(D) Window-dressing

Oct/Nov 2021

97. The JAM trinity, which has been leveraged for rapid direct benefit transfers to vulnerable households, consists of:
(A) Jan Dhan Yojana, Aadhaar, Mobile
(B) Joint-liability, Agriculture, Micro-finance

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(C) Justice, Access, Monetisation
(D) Jivika, Assets, Management

May/June 2013

98. A modern shift in the financial inclusion paradigm moves away from focusing solely on credit expansion towards focusing on:
(A) Imposing rigid interest rate ceilings on all micro-enterprises.
(B) Payment systems, remunerative savings vehicles, and comprehensive insurance
(C) Eradicating all forms of local area banks.
(D) Restricting the use of smartphones for financial transactions.

NODIA

Oct/Nov 2015

99. The official launch of seventy-five Digital Banking Units (DBUs) across seventy-five districts in India occurred on which date?
(A) August 15, 2014
(B) March 31, 2021
(C) October 16, 2022
(D) December 15, 2021

May/June 2020

100. The Financial Inclusion Index (FI-Index) constructed by the RBI evaluates national progress based on:
(A) 3 parameters focused exclusively on credit disbursement volumes.
(B) A single metric based on the number of active ATMs in rural districts.
(C) Data compiled solely from the IMF Financial Access Survey.
(D) 97 indicators covering access, usage, and the quality of protection services

finance bank is mandated to be in loans and advances of up to Rs. 25 lakhs.

III. Thus far, licenses for small finance banks have been largely given exclusively to commercial universal banks.

Which of the above statements is/are correct?

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

May/June 2013

58. Match the Institutions in List I with their specific characteristics in List II.

List I: (Institutions)

P. Small Finance Banks
Q. Micro finance institutions
R. Local area banks
S. Credit Information Bureaus

List II: (Characteristics)

1. Suffer from geographical concentration risks due to inability to expand outward
2. Mandated to have 50% of loans below 25 lakhs
3. Help solve both the information and incentive problem in retail credit
4. Lack access to low-cost deposit financing

(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-1, Q-3, R-4, S-2
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2015

59. Consider the following statements regarding the targets for priority sector lending set for March 2017:

I. The share of adjusted net bank credit (ANBC) that has to go to small and marginal farmers was set at 8 percent.

II. The share of ANBC for micro enterprises was set at 7.5 percent.

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2020

60. Match the target groups in List I with the corresponding policy or solution in List II.

List I: (Target Groups)

P. Sharecroppers
Q. MSMEs
R. Students
S. Farm workers

List II: (Policy/Solution)

1. Trade-Receivables Discounting Systems (TReDS)
2. Skilling and support in acquiring skills to raise livestock or grow flowers
3. Formal recognition of cropping agreements (pattas) to ease access to credit
4. Structuring loans with an optional moratorium period

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2005

61. Consider the following statements regarding alternative institutional and financial structures:

I. Micro finance institutions combine local knowledge with strong incentives for repayment through peer pressure.

II. Local area banks were able to expand easily across all states, avoiding geographical concentration risks.

III. Regional rural banks achieved parity in salary structures with parent scheduled commercial banks, keeping costs high.

IV. Small finance banks are intended to provide services to the excluded and maintain a low-cost structure augmented by technology.

V. Credit information bureaus solve information and incentive problems in retail credit.

Which of the above statements is/are correct?

(A) Only I, II, and IV
(B) Only I, IV, and V
(C) Only II, III, and V
(D) Only I, III, IV, and V

May/June 2017

62. The following question consists of two statements: Assertion (A) and Reason (R). Select the correct answer using the codes given below.

Assertion (A): The Financial Inclusion Index (FI-Index) constructed by the RBI implicitly sets the goal at 100 per cent financial inclusion for India.

Reason (R): The index takes values from 0 to 100 and relies entirely on evaluating the profitability margins of rural bank branches.

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income populations. Under specific guidelines, individuals can open restricted basic accounts without standard official documents. This flexibility allows vulnerable sections of society to enter the formal financial system while still maintaining necessary oversight through transaction and balance limits.

9. (B) Borrowers who make bad choices or have bad luck should escape all responsibility and be guaranteed total loan waivers without consequences
Robust credit systems must balance borrower protection with the necessity of repayment discipline. While flexibility is important during genuine hardships like natural disasters, providing unconditional loan waivers without consequences undermines the credit culture. A sustainable system requires that borrowers remain responsible for their financial choices to ensure the continued availability of credit for the entire community.

10. (C) 2020-2025
The National Strategy for Financial Education was developed to enhance financial literacy across various segments of the population. This multi-year framework aims to empower citizens with the knowledge and skills required to manage finances effectively and utilize formal financial services. The current phase of this strategic initiative is scheduled to operate throughout the five-year period ending in 2025.

11. (D) Regional rural banks successfully maintained low salary structures by avoiding parity with parent commercial bank pay scales
Local financial institutions have encountered various operational challenges that affect their long-term viability. While many successfully reached rural clients, Regional Rural Banks eventually faced increased costs after achieving salary parity with their parent commercial banks. This shift removed their initial low-cost advantage, making it difficult to service small-value accounts profitably compared to other specialized local intermediaries.

12. (C) Indicators measuring access to infrastructure, usage of services, and the quality of inclusion
The Reserve Bank of India's Financial Inclusion Index is a comprehensive tool designed to capture the extent of financial reach in the country. It moves beyond simple infrastructure counts by incorporating three essential dimensions. These include the availability of banking touchpoints, the actual frequency of service utilization, and the qualitative aspects of consumer protection and financial literacy.

13. (A) Camps must be conducted monthly by both Financial Literacy Centres and all rural bank branches
Regulatory guidelines emphasize the importance of continuous financial education to ensure the effective use of banking services. To achieve this, both specialized centers and rural banking outlets are required to organize regular literacy camps. This monthly frequency ensures that rural populations receive consistent information regarding savings, credit, and digital banking, helping them make informed financial decisions regularly.

14. (C) Limit interest rates, prohibit taking collateral, and maintain high borrower access to loans
The impossible trinity in lending highlights the fundamental trade-offs faced by financial regulators. If authorities simultaneously cap interest rates and ban collateral requirements, banks often find lending to high-risk groups unviable. Consequently, this combination usually leads to a withdrawal of credit services from the very populations the policies were intended to protect, thereby reducing overall loan access.

15. (D) Disbursal of small value credit and the routine collection of small value cash deposits
Financial institutions utilize different models to extend their reach into underserved areas. Business Facilitators are primarily responsible for non-transactional support, such as identifying potential borrowers and nurturing self-help groups. However, they are strictly prohibited from conducting core banking business. Handling actual cash transactions, including the disbursal of credit and collection of deposits, is reserved for Business Correspondents.

16. (A) A bank whose "small" designation refers to its target customer base rather than its physical scale
Small finance banks were established as specialized institutions to drive financial

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66. (A) Permitting collateral on ordinary loans while qualifying only unsecured credit for priority sector targets
Regulators often face a dilemma when trying to encourage lending without collateral. If collateral is banned for all small loans, banks may simply stop lending to avoid unsecured risk. A reasonable compromise is to allow collateral on standard loans while offering regulatory incentives, such as priority sector status, only for unsecured credit. This approach maintains loan access while encouraging banks to reach the poorest.

67. (B) Only I, III, and IV
Digital Banking Units represent a blend of physical presence and digital efficiency. Launched in 2022, these units provide a wide range of services, including account opening and fund transfers, using modern digital infrastructure. They are not purely virtual; they maintain brick-and-mortar outlets where staff can assist customers. This assisted model is particularly important for helping less tech-savvy individuals transition into the digital financial ecosystem.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Trade-Receivables Discounting System is a vital tool for improving the financial health of small businesses. By allowing MSMEs to sell their unpaid invoices to financiers, the platform provides them with immediate liquidity. This system directly addresses the chronic problem of delayed payments from large corporate buyers, which otherwise creates severe cash flow challenges for smaller suppliers and hinders their growth.

69. (A) Managers lack intimate local familiarity due to all-India recruitment and rotation policies
Assessing creditworthiness in rural settings requires deep local knowledge, which informal moneylenders naturally possess. In contrast, commercial bank managers are often outsiders who move frequently between different regions. This lack of continuity and local connection makes it difficult for them to evaluate the reputation and informal track record of borrowers, creating an information gap that can lead to more conservative lending practices.

70. (A) Only I, II, III, and IV
The Reserve Bank of India has established a comprehensive framework for financial literacy and consumer protection. This includes mandatory monthly literacy camps and the establishment of dedicated literacy centers in every district. Banks must also adhere to the Charter of Consumer Rights to prevent issues like mis-selling. These protections are universal and include robust grievance redressal mechanisms through the integrated ombudsman scheme.

NODIA

71. (D) Regional rural banks successfully maintained low salary structures by avoiding parity with parent commercial bank pay scales
Local financial institutions have faced significant structural challenges over the years. Regional Rural Banks, for example, saw their operational costs rise significantly after they were mandated to provide salary parity with larger commercial banks. This change eliminated their primary cost advantage, making it more difficult for them to remain economically viable while focusing on small-value transactions in the rural and semi-urban sectors.

72. (A) Only I, II, and III
Engaging Business Correspondents involves significant operational and reputational risks that banks must manage carefully. Regulatory guidelines require bank boards to approve a formal policy and establish strict procedures for customer identification and anti-money laundering. While monitoring is essential, it must be conducted frequently to be effective. Relying on a five-year monitoring cycle would be insufficient to manage the dynamic risks associated with agent banking.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Strong enforcement of loan repayment is necessary for credit discipline, but it can be devastating for borrowers facing genuine, unavoidable disasters. Effective credit systems must therefore incorporate flexibility, such as restructuring or moratoriums, to prevent permanent financial ruin. By allowing for forgiveness or modified terms in adverse situations, the system protects vulnerable individuals while maintaining the overall health and fairness of the credit market.

24. (D) The index ignores usage and quality metrics, focusing solely on the supply of physical banking infrastructure
The Financial Inclusion Index released by the Reserve Bank of India is designed to be a multidimensional measurement tool. It specifically moves beyond infrastructure counts to include indicators related to how often services are used and the quality of the consumer experience. By incorporating literacy and protection metrics, the index provides a comprehensive assessment of the depth of financial inclusion.

25. (B) Banks may provide need-based loan restructuring without NPA classification during widespread crop losses
Agricultural lending in India includes safeguards for farmers affected by natural disasters. Reserve Bank guidelines allow banks to provide flexibility by restructuring loans when widespread crop losses occur. This provision ensures that distressed farmers are not immediately penalized with a non-performing asset classification, allowing them to maintain their credit history and receive necessary support during difficult recovery periods.

26. (D) Facilitators do not conduct core banking business, which is a function reserved for Correspondents
The primary distinction between the two agent-based models lies in the authority to handle financial transactions. Business Facilitators provide essential support services like borrower identification and financial literacy without touching money. Conversely, Business Correspondents are empowered to perform core banking functions, including accepting deposits and disbursing credit, acting as a functional extension of the bank's branch network in remote villages.

27. (A) A lack of sophisticated financial innovations entering the market
Major impediments to financial inclusion primarily stem from structural and economic challenges rather than a lack of innovation. These include the remote location of excluded populations, the difficulty of serving them profitably, and the absence of institutional incentives for service providers. In fact, many innovations exist, but the fundamental barriers related to information, incentives, and transaction costs remain the primary hurdles.

28. (C) 97 indicators
The Financial Inclusion Index is a robust analytical framework used by the Reserve Bank of India to monitor progress. It utilizes nearly a hundred distinct data points to evaluate various aspects of financial reach and quality. These indicators are distributed across three main dimensions: access, usage, and quality, ensuring that the final score reflects a detailed and accurate picture.

29. (C) It is mandated that 75% of the loans provided by a small finance bank must be below 25 lakhs
Small finance banks operate under specific regulatory mandates designed to ensure they serve their intended target groups. One key requirement is that at least half of their loan portfolio must consist of individual loans and advances that do not exceed twenty-five lakh rupees. This ensures that the bank's credit activities remain focused on small borrowers rather than large corporate entities.

30. (D) To allow MSMEs to sell claims on large buyers, improving liquidity and reducing transaction costs
Small and medium enterprises often face liquidity constraints due to delayed payments from larger corporate buyers. The Trade-Receivables Discounting System was introduced as a digital platform to address this issue. It enables these firms to auction their trade receivables to financiers, allowing them to access immediate cash flow based on the creditworthiness of the buyer, thereby facilitating smoother business operations.

31. (A) IV, III, II, I
India's financial inclusion journey has evolved through several strategic milestones. The Reserve Bank first established customer dealing principles in 2015, followed by the National Strategy for Financial Inclusion in 2019. The National Strategy for Financial Education launched in 2020, and the digital banking units were inaugurated in late 2022. This sequence reflects a logical progression from policy frameworks to technological implementation.

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inclusion for underserved segments. The term refers to their focus on small farmers, micro-industries, and unorganized sector entities rather than the size of the bank itself. These entities combine technology with local knowledge to provide high-volume, low-value services while maintaining the regulatory rigor of scheduled banks.

17. (A) The activities undertaken by Business Correspondents are conducted outside the normal course of the bank's banking business
The Business Correspondent model is an essential pillar of branchless banking in India. These intermediaries are authorized to perform various banking functions as agents of the bank, and their activities are considered part of the bank's normal business operations. This arrangement allows banks to provide doorstep services and manage cash transactions in remote areas where brick-and-mortar branches are unviable.

18. (B) 16th October 2022
To accelerate the adoption of digital financial services, the government launched a specialized initiative involving the establishment of dedicated digital outlets. This milestone event saw the simultaneous opening of seventy-five units across seventy-five different districts. These units provide self-service and assisted digital banking facilities, marking a significant step toward transforming India into a digitally empowered society and knowledge economy.

19. (D) They allow a lender to sell any over-achievement in particular priority sector categories to others who are deficient
Priority Sector Lending Certificates are market-based instruments designed to help banks meet their regulatory targets efficiently. Banks that exceed their lending requirements in specific sectors, such as agriculture or micro-enterprises, can sell these certificates to banks that have fallen short. This mechanism incentivizes specialized lending and ensures that the overall credit flow to priority sectors is maintained.

20. (A) Rates set high enough to prevent borrower exploitation but low enough to maintain lending incentives
Setting interest rate caps for micro-finance involves finding a delicate balance that ensures both borrower protection and lender viability. If rates are too high, they become usurious; if too low, lenders cannot cover the high fixed costs of small-value loans. A successful regulatory approach identifies a middle ground that keeps credit accessible while allowing legitimate institutions to operate sustainably.

21. (C) Policy mandates trigger the automatic and immediate recapitalisation of all public sector banks by the central government
While financial inclusion mandates drive social progress, they also introduce specific operational and strategic risks. These include the difficulty of measuring intangible social benefits and the potential for banks to engage in window-dressing to meet targets. However, mandates do not result in automatic recapitalization. Bank capital requirements are managed separately through fiscal allocations and regulatory assessments of bank health.

22. (B) Information, Incentives, and Transaction Costs
Achieving universal financial inclusion is hindered by three primary structural impediments often summarized by a specific acronym. Information gaps make it difficult to assess borrower risk, while poor incentives may discourage banks from serving remote areas. Additionally, the high transaction costs associated with small-value accounts often make these services economically unviable for traditional banking models without technological intervention.

23. (D) It causes a shift in preference from cash to interest-bearing bank deposits, increasing the interest rate sensitivity of money balances
Financial inclusion significantly alters how monetary policy affects the broader economy. As more individuals move their savings from physical cash into formal bank accounts, they become more responsive to changes in interest rates. This shift increases the overall sensitivity of the population to the central bank's policy signals, thereby enhancing the effectiveness and transmission of interest rate-based monetary policy.

NODIA

on financial stability. Domestically, the Reserve Bank of India manages the Financial Inclusion Index, and the Government of India oversees the implementation of the Pradhan Mantri Jan Dhan Yojana.

41. (A) Only I and II
Effective credit systems incorporate flexibility to protect borrowers during adverse circumstances. Guidelines permit restructuring agricultural loans during crop losses to avoid immediate default status. Additionally, moratorium periods for student loans help graduates manage debt during their transition into the workforce. While bankruptcy is a recognized last resort for debt relief, the priority is maintaining a supportive environment for legitimate borrower recovery.

42. (C) It facilitated direct benefit transfers and acted as a major catalyst for deposit-side inclusion
The synergy between unique identification, mobile connectivity, and universal banking has transformed financial access in India. By providing a secure and efficient channel for government transfers, this framework has encouraged millions to maintain and use formal bank accounts. This shift has not only increased deposit-side inclusion but also created a reliable digital trail that can be used to assess future creditworthiness.

43. (B) Post Offices and registered NBFCs not accepting public deposits
To expand the reach of banking services, the Reserve Bank allows diverse entities to function as Business Correspondents. Post Offices and certain non-banking financial companies are well-suited for this role due to their existing presence in rural areas. By acting as agents for banks, these organizations provide essential cash-in and cash-out points, making formal banking accessible to the unbanked.

44. (A) P-2, Q-4, R-3, S-1
Key conceptual terms help explain the complexities of financial regulation and inclusion. Externalities represent social benefits not captured by banks, while the Goldilocks quality refers to balanced interest rate caps. The impossible trinity describes the conflict between rate limits, collateral bans, and loan access. Finally, window-dressing refers to artificial short-term activities used by banks to meet regulatory targets at year-end.

45. (B) Only I and III
Business Facilitators play a supportive role in the banking process by assisting with non-financial tasks. Their activities include processing loan applications and monitoring self-help groups after a loan is sanctioned. However, they are legally barred from performing core banking duties like disbursing credit or collecting cash. This separation ensures that financial transactions remain under the direct control of regulated entities and their correspondents.

46. (B) Ensuring that all sections of society benefit from financial development regardless of economic growth levels
A central goal of Indian financial policy since independence has been the equitable distribution of financial development. The aim is to ensure that vulnerable and remote sections of the population are not left behind as the economy grows. By making formal credit and savings accessible to everyone, the policy seeks to foster inclusive growth and reduce the reliance on exploitative informal systems.

47. (B) Only II
Data indicates significant progress in the inclusion of women within the formal credit market. Over the last decade, the growth rate of loan accounts and outstanding balances for female borrowers has outpaced that of their male counterparts. This trend demonstrates an increasing entrepreneurial drive among women and the effectiveness of targeted policies in providing them with necessary financial resources for economic empowerment.

48. (A) P-3, Q-2, R-4, S-1
Various acronyms define the strategic and technological landscape of financial inclusion in India. IIT represents the primary impediments to inclusion: information, incentives, and transaction costs. TReDS is the platform for discounting trade receivables for MSMEs. DBUs refer to digital banking units, and JAM stands for the integrated Jan Dhan, Aadhaar, and mobile framework used for efficient welfare delivery.

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49. (A) October 2022 — Introduction of the National Strategy for Financial Inclusion (NSFI)
The strategic roadmap for financial inclusion in India was established well before late 2022. The National Strategy for Financial Inclusion was launched in early 2020 to cover the period from 2019 to 2024. Other significant events include the launch of the Jan Dhan Yojana in 2014, the advisory for literacy centers in 2012, and the release of the FI-Index in 2021.

50. (A) P-4, Q-1, R-2, S-3
Major financial inclusion initiatives in India follow specific timelines and strategic periods. The NSFI covers 2019-2024, while the NSFE spans 2020-2025. Financial Inclusion Plans were first introduced by the Reserve Bank in 2010 to encourage board-approved bank targets. Finally, the multidimensional Financial Inclusion Index was publicly released in 2021 to provide a standardized measurement of national progress.

51. (C) Only I and III
Regulators must carefully calibrate interest rate caps to protect borrowers without stifling credit supply. While ceilings are intended to prevent usury, setting them too low makes it impossible for regulated lenders to cover the high costs of small loans. When these institutions are forced to withdraw, the poor often lose access to formal credit and fall back under the control of unregulated moneylenders.

52. (A) III, IV, II, I
The policy framework for financial inclusion has developed incrementally over the last decade. It began with the introduction of Financial Inclusion Plans in 2010, followed by the establishment of literacy centers in 2012. The Pradhan Mantri Jan Dhan Yojana was launched in 2014, and the comprehensive Financial Inclusion Index was released in 2021. This timeline shows a shift from planning to execution and measurement.

53. (A) P-4, Q-1, R-3, S-2
Financial Inclusion Plan data from December 2021 highlights the massive scale of rural banking. Business Correspondent outlets in villages exceed eighteen lakh, while traditional branch outlets number over fifty-three thousand. Additionally, total amounts in basic savings accounts and Kisan Credit Cards reach into the trillions of rupees. These figures demonstrate the significant penetration of formal financial services into India's rural and agricultural heartlands.

54. (C) Both I and II
Food inflation is highly sensitive to supply-side disruptions and production shocks. During the pandemic, targeted policy interventions were necessary to manage price volatility and ensure food security for the population. By implementing effective distribution and monitoring strategies, authorities were able to moderate food inflation significantly by late 2021, providing relief to households and contributing to overall macroeconomic stability during a challenging period.

55. (A) Adjusted net bank credit to small and marginal farmers — 8 percent
The Reserve Bank sets specific priority sector targets to ensure that credit reaches those who need it most. For March 2017, banks were required to direct a defined percentage of their adjusted net bank credit to small and marginal farmers. This specific target emphasizes the importance of supporting small-scale agriculture, which is a vital component of India's rural economy and food security.

56. (A) The credit risk margin influenced by institutional infrastructure
The high cost of credit for small firms is often driven by the risk premium lenders charge. When institutional infrastructure, such as credit bureaus or land record systems, is underdeveloped, lenders face greater uncertainty regarding repayment. This uncertainty leads to higher interest rates to cover potential losses. Strengthening these institutions is therefore essential to reducing the overall cost of borrowing for micro and small enterprises.

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57. (A) Only I and II
Small finance banks were created to serve the unbanked and provide high-volume, low-value financial services. Regulatory guidelines require them to maintain a strong focus on small borrowers, with a significant portion of their loan portfolio consisting of loans under twenty-five lakhs. Unlike universal banks, these institutions often evolved from micro-finance organizations,

combining specialized local knowledge with the regulatory status of a commercial bank.

58. (A) P-2, Q-4, R-1, S-3
Different financial intermediaries have unique roles and challenges. Small Finance Banks focus on small loans, while micro-finance institutions often lack low-cost deposit funding. Local area banks are geographically limited, facing concentration risks. Meanwhile, credit bureaus play a vital role in solving information problems. Understanding these institutional characteristics is key to developing a diverse and resilient financial ecosystem that reaches all segments of society.

59. (C) Both I and II
Priority sector lending targets for March 2017 included specific requirements for both farmers and micro-enterprises. Banks were mandated to allocate 8 percent of their adjusted net bank credit to small and marginal farmers and 7.5 percent to micro-enterprises. These dual targets ensure that both the agricultural sector and small industrial units receive the formal credit necessary for their continued operation and growth.

60. (A) P-3, Q-1, R-4, S-2
Tailored financial policies address the unique needs of different excluded groups. Recognizing cropping agreements helps sharecroppers access credit, while TReDS provides liquidity for MSMEs. For students, moratorium periods ease the burden of education loans. Additionally, skilling programs support farm workers in diversifying their income. These specific interventions are necessary because a one-size-fits-all approach to financial inclusion often fails to reach the most vulnerable.

61. (D) Only I, III, IV, and V
The landscape of financial inclusion involves various specialized institutions. Micro-finance firms use peer pressure for repayment, and Small Finance Banks utilize technology for efficiency. Credit bureaus address information gaps, which are essential for retail credit. However, some institutions like local area banks face geographic risks, and regional rural banks have struggled with high costs following salary parity. These factors collectively shape the availability of credit.

62. (C) Assertion (A) is true, but Reason (R) is false
The Financial Inclusion Index acts as a benchmarking tool where a score of 100 represents the ultimate goal of full inclusion. While the index spans a range from 0 to 100, its methodology is multidimensional and comprehensive. It does not rely solely on bank profitability; instead, it incorporates a wide array of indicators related to access, usage, and the quality of financial services provided.

63. (C) Only II, III, and IV
Consumer protection and simplified onboarding are central to the Reserve Bank's financial inclusion strategy. Guidelines allow for the self-certification of addresses to facilitate mobile populations. Furthermore, the Charter of Consumer Rights and the internal ombudsman system ensure that banks treat customers fairly and address grievances effectively. These measures build trust in the formal banking system, which is essential for encouraging the unbanked to participate.

64. (C) Ensuring mandate transparency through the provision of a fixed regulatory subsidy
When governments provide direct payments to entities for fulfilling social goals, they are utilizing a transparent regulatory mechanism. This approach ensures that the cost of serving remote areas is clearly accounted for and borne by the state rather than hidden in the bank's operational losses. This transparency allows for more efficient policy-making and encourages competition among providers to deliver essential services.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Evidence from international organizations suggests that financial inclusion contributes significantly to the overall stability of the financial system. Included economic agents tend to manage their finances more effectively, allowing them to remain resilient during interest rate fluctuations. By providing a stable base of deposits and diverse credit users, financial inclusion helps the entire system withstand macroeconomic cycles more robustly.

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32. (B) Small finance banks — Restricted from using technology to augment their low-cost structure
Institutional intermediaries face specific limitations, such as micro-finance firms lacking deposit access or local area banks facing geographic risks. However, Small Finance Banks are encouraged to leverage technology to maintain a low-cost structure while serving excluded populations. Technology is a critical tool for these banks to achieve the high volume and low transaction costs necessary for sustainable financial inclusion.

33. (B) It ensures costs are transparent, borne by authorities, and delivered by efficient providers
Using explicit subsidies to fund social mandates is considered a sound regulatory practice. By paying service providers a fixed amount for specific tasks, like maintaining cash machines in remote areas, the government makes policy costs clear. This approach allows the market to determine the most efficient providers while ensuring that essential services are delivered to the public without hidden costs.

34. (A) Only I
Financial inclusion enhances monetary policy transmission as individuals move from cash to interest-bearing bank accounts. This shift makes the broader population more responsive to interest rate changes set by the central bank. Consequently, as the share of interest-sensitive balances in the economy grows, the potency of monetary signals increases, allowing the central bank to influence economic activity more effectively.

35. (A) P-4, Q-1, R-2, S-3
India has implemented various initiatives to ease credit and payment flows. The Unified Payment Interface simplifies mobile transfers, while Udhyog Aadhaar helps small firms build credit histories. Digitizing land records facilitates the use of land as collateral for loans, and Priority Sector Lending Certificates allow banks to trade their target achievements. Together, these tools address structural barriers to inclusion.

36. (D) All I, II, and III
The integration of Jan Dhan accounts, Aadhaar, and mobile technology has revolutionized India's welfare delivery system. This framework has enabled large-scale direct benefit transfers, ensuring that financial aid reaches beneficiaries without leakage. During the pandemic, this digital infrastructure was crucial for providing immediate support to vulnerable populations, demonstrating the power of technological synergy in achieving meaningful social and financial goals.

37. (A) Increasing competition amongst suppliers of financial services
Exploitation by informal moneylenders is best countered by providing borrowers with more formal alternatives. When multiple regulated financial institutions compete to serve the same population, interest rates tend to stabilize and service quality improves. Increasing the number of suppliers ensures that excluded individuals have the freedom to choose better terms, effectively reducing the leverage of usurious lenders and corrupt intermediaries.

38. (A) P-2, Q-1, R-4, S-3
Financial institutions utilize agent models to reach remote areas. Panchayats and similar local bodies act as eligible entities for facilitators, who focus on awareness and group nurturing. Conversely, non-deposit-taking NBFCs can act as correspondents, handling credit disbursal and deposit collection. These distinct roles ensure that both support services and core banking functions are delivered effectively through a variety of local partners.

39. (B) Only II
The expansion of banking outlets in rural India has been driven largely by the Business Correspondent model. By March 2021, these intermediaries accounted for the vast majority of village banking touchpoints, providing essential services where traditional branches were absent. Meanwhile, the number of basic savings accounts has continued to grow significantly, reflecting a consistent increase in the reach of formal banking.

40. (A) P-2, Q-4, R-1, S-3
Global and national organizations play distinct roles in monitoring and promoting financial inclusion. The International Monetary Fund conducts the Financial Access Survey, while the UN Capital Development Fund provides evidence

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74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Universal bank account ownership creates significant network benefits for both the government and the public. When nearly everyone is within the banking system, direct benefit transfers and mobile-based payments become seamless and cost-effective. These positive externalities mean that the value of the network increases for every participant as more people join, justifying the use of policy mandates to achieve near-universal account coverage.

75. (D) The "impossible trinity" where limiting collateral and interest rates reduces loan access
The regulatory challenge of ensuring credit access involves balancing consumer protection with bank viability. If the government caps interest rates and prohibits collateral, banks often refuse to lend because they cannot cover the risk and operational costs. This scenario demonstrates that attempting to fix all three conditions simultaneously can lead to market failure, where the intended beneficiaries are left without any formal credit options.

76. (A) Only I, II, and III
Policy mandates for financial inclusion carry inherent risks, such as the difficulty of measuring social status and the potential for vested interests to influence policy. Furthermore, bankers may engage in low-cost target achievement by focusing only on the most accessible segments within a priority category. These mandates often reduce bank profitability because they force institutions to engage in activities that may not be commercially optimal.

77. (D) Small Finance Bank
Small finance banks are specialized institutions designed to extend formal credit to the unserved and underserved. They operate under a specific mandate to focus on small-scale loans, ensuring that at least half of their credit goes to borrowers with requirements under twenty-five lakhs. By combining the regulatory standards of a bank with a mission-driven focus, they bridge the gap between micro-finance and universal banking.

78. (A) Only I, II, IV, and V
The landscape of financial services for the poor is multifaceted, involving savings requirements, technology-driven payment systems, and diversified business models. Expanding cash access points through biometric systems makes formal savings more attractive. Additionally, peer-to-peer platforms and full-service entities help small businesses integrate into the formal economy. These diverse approaches go beyond traditional lending to provide a comprehensive financial ecosystem for the underserved.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Financial inclusion is a critical driver for more effective monetary policy. When individuals shift their savings from idle cash to interest-bearing bank accounts, their financial behavior becomes more sensitive to the central bank's policy rates. This increased sensitivity means that changes in interest rates have a more direct and widespread impact on consumption and investment across the entire economy, strengthening policy transmission.

80. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Informal moneylenders are often highly effective at credit assessment because they are deeply embedded in the local community. While it is true that commercial bank managers often lack this familiarity due to their recruitment and rotation patterns, the moneylender's effectiveness also stems from their own unique social ties and local information. Both factors describe the relative strengths and weaknesses of different lending models in rural areas.

81. (C) Provide need-based loan restructuring without classifying the debt as a Non-Performing Asset
In the event of natural calamities, the Reserve Bank of India provides specific guidelines to support affected borrowers. Banks are encouraged to restructure loans to help farmers recover from widespread crop losses. Crucially, this restructuring is permitted without immediately classifying the debt as a non-performing asset. This protection preserves the borrower's credit

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standing and ensures they remain eligible for future financial assistance.

82. (A) Only I, II, III, and V
Structural barriers like remote locations, lack of collateral, and high fixed costs are significant impediments to universal financial inclusion. These challenges are often summarized by the acronym IIT, representing issues with information, incentives, and transaction costs. Unlike local lenders, national bank managers often lack regional familiarity, which further complicates credit assessment for those who do not have a formal financial track record.

83. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Placing financial products in the hands of more people is the fundamental definition of financial inclusion. A significant consequence of this broadening and deepening of services is the strengthening of the central bank's monetary policy tools. While both statements are accurate reflections of the financial landscape, the improvement in policy transmission is a beneficial result of inclusion rather than the primary reason for its occurrence.

84. (C) It violates the model, as facilitators are not authorized to conduct core banking activities like deposit collection
The Business Facilitator model is strictly designed for non-transactional support services. Facilitators are meant to help banks with marketing, borrower identification, and nurturing groups, but they are legally prohibited from handling money. If an organization begins collecting cash deposits, it has exceeded its authorized scope of activities. Such core banking functions are reserved for the bank itself or its authorized Business Correspondents.

85. (D) Assertion (A) is false, but Reason (R) is true
Setting interest rate caps too low often backfires, as regulated lenders cannot cover their operational and risk-related costs for small loans. Consequently, these institutions may stop lending to the poor entirely to avoid losses. Lenders must be able to recoup their fixed costs and credit risk margins for lending to be sustainable. Without a viable business case, formal credit supply will simply disappear, hurting the poor.

86. (A) Only I, II, and III
The Financial Inclusion Index is a multidimensional measurement tool used to track national progress on a scale from 0 to 100. It incorporates ninety-seven indicators that evaluate access, usage, and the quality of services, including consumer protection and literacy. Publicly released in 2021, this index provides a standardized way to measure how effectively different regions and sectors are integrated into the formal financial system.

87. (B) Regulated lenders will withdraw, leaving borrowers to high-cost unregulated moneylenders
Interest rate ceilings that are set below the cost of service delivery lead to a contraction in formal credit supply. Regulated financial institutions, unable to break even on small loans, will naturally shift their focus elsewhere. This withdrawal creates a vacuum that is typically filled by informal moneylenders who charge much higher rates. Thus, overly restrictive caps often worsen the financial situation of the poor they were meant to protect.

88. (B) Only I, II, IV, and V
Financial inclusion strengthens monetary policy by making the population more sensitive to interest rate changes. This increased sensitivity allows the central bank to achieve its objectives with smaller shifts in policy rates. During the pandemic, inclusive digital systems were leveraged to maintain financial flows and stabilize incomes. These measures, combined with targeted support for the agricultural sector, helped moderate inflation and support vulnerable households.

89. (B) Business Facilitator Model
When a bank uses local organizations for support tasks like identifying borrowers and promoting savings without handling cash, it is implementing the Business Facilitator Model. This approach leverages local knowledge to bridge the gap between the bank and remote communities. By keeping financial transactions within the bank's direct control or using separate correspondents for cash, the bank ensures regulatory compliance while expanding its reach.

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90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Moving from annual to quarterly priority sector lending targets is a significant regulatory improvement. It prevents banks from engaging in window-dressing, where they provide short-term credit just before the year-end to meet their quotas. Frequent reporting ensures a more consistent and genuine flow of credit to priority sectors throughout the entire year, promoting more stable and predictable funding for small farmers and micro-enterprises.

91. (B) It enhances potency by increasing the economy's overall interest rate sensitivity
As financial inclusion expands, a larger portion of the population interacts with the formal banking system. This shift from cash to interest-bearing deposits makes individuals' financial decisions more responsive to the central bank's interest rate signals. Consequently, the transmission of monetary policy becomes more potent, allowing the central bank to influence economic activity more effectively and across a broader cross-section of the society.

92. (C) Digital Banking Unit (DBU)
A Digital Banking Unit is a specialized brick-and-mortar outlet established by banks to provide digital banking services in an assisted or self-service mode. These units utilize core banking infrastructure to allow customers to perform tasks like opening accounts and transferring funds digitally. They are designed to improve digital financial literacy and ensure that the benefits of modern banking are accessible to all districts in India.

93. (D) Allowing bankruptcy declaration, leading to debt relief but temporary exclusion from credit
When a borrower faces permanent financial distress and cannot repay their debt even after restructuring, bankruptcy is the final legal option. This mechanism provides essential relief by erasing the outstanding debt, allowing the individual to restart their economic life. However, to maintain credit discipline, this relief comes with consequences, such as the loss of assets and temporary exclusion from the formal credit market.

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94. (C) The central bank needs to move interest rates by less.
High levels of financial inclusion make the general population more responsive to changes in interest rates. Because a larger share of money balances is sensitive to interest rate cycles, the central bank's policy signals have a wider and faster impact. As a result, the central bank can achieve its desired macroeconomic outcomes with smaller adjustments to the policy rate than would otherwise be necessary.

95. (A) Unified Payment Interface (UPI)
The Unified Payment Interface is a revolutionary technology that has simplified digital transactions in India. It allows users to make instant, frictionless transfers between bank accounts using a mobile phone and a simple virtual alias. By removing the need for physical cards or point-of-sale machines, UPI has significantly reduced transaction costs and acted as a major catalyst for the country's digital financial inclusion.

96. (B) Externalities
Externalities in financial inclusion refer to the broader social benefits that result from providing banking services to the underserved. For example, a loan that helps a family start a business may improve the entire community's health or educational outcomes. These positive impacts are not directly captured in the bank's profits, but they represent a significant gain for society that justifies proactive government policy.

97. (A) Jan Dhan Yojana, Aadhaar, Mobile
The JAM trinity is the foundational framework for India's modern financial inclusion strategy. It integrates universal bank accounts, biometric identification, and widespread mobile connectivity to create a secure and efficient delivery system. This combination has enabled the government to provide direct benefit transfers and other financial services to millions of citizens, significantly reducing leakages and ensuring that aid reaches the intended beneficiaries directly.

98. (B) Payment systems, remunerative savings vehicles, and comprehensive insurance
Modern financial inclusion strategies have moved beyond a narrow focus on credit. The current paradigm emphasizes providing a comprehensive suite of financial tools, including

(D) P-2, Q-1, R-3, S-4

Oct/Nov 2013

36. Consider the following forms that selective credit controls may take in managing an economy:
I. Stipulations about the maximum size of exposures of banks to individual borrowers.
II. Minimum mandated levels of lending to specific sectors (directed lending).
III. Stipulation of margins in lending against inventories of certain commodities.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2015

37. Among the choices provided, which variable is considered superior as an indicator of monetary policy because changes in it are more within the control sphere of the monetary authority?
(A) High Powered Money (Reserve Money)
(B) Broad Money Supply (M3)
(C) Bank Credit to the private sector
(D) Foreign Direct Investment (FDI) volume

Oct/Nov 2012

38. Match the stages of liquidity exercises in List I with their objectives in List II:
List I: (Liquidity Exercise Stages)
P. Liquidity Assessment Exercises
Q. General Refinance
R. Market Stabilisation Scheme (MSS)
S. OMO Purchases
List II: (Objectives)
1. Inject permanent liquidity and increase High Powered Money.
2. Sub-serve developmental goals by providing credit to specified sectors at concessional rates.
3. Sterilize the impact of foreign exchange market interventions due to large capital inflows.
4. Reflect the demand for and supply of funds in the economy before initiating policy actions.
(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-1, R-4, S-2

May/June 2011

39. Consider the following statements regarding the Taylor Rule:
I. According to the rule, both coefficients 'a' and 'b' should be positive.
II. A Taylor rule specifies the relative weights given to reducing inflation versus increasing output when monetary policy goals conflict.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2020

40. Match the transmission channels in List I with their primary triggering variables in List II:
List I: (Transmission Channels)
P. Real Balance Effect Channel
Q. Interest Rate Channel
R. Exchange Rate Channel
S. Wealth Effect Channel
List II: (Triggering Variables)
1. Cost conditions in the economy and investment spending
2. Equity prices and Tobin's q
3. Value of real cash-balances held by the public (M/P)
4. Interest rate differentials causing capital flows and currency valuation changes
(A) P-1, Q-3, R-4, S-2
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-4, R-1, S-2

May/June 2022

41. Under the Monetary Policy Framework Agreement (MPFA), consider the conditions under which the central bank is considered to have failed to meet the target:
I. The average inflation is more than the upper tolerance level for any three consecutive quarters.
II. The average inflation is less than the lower tolerance level for any three consecutive quarters.
III. The policy repo rate remains unchanged for four consecutive quarters.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only

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CHAPTER 07
Monetary Policy

May/June 2016

1. In which year was the Liquidity Adjustment Facility (LAF) introduced in India to act as a liquidity adjustment mechanism?
(A) 1997
(B) 1999
(C) 2000
(D) 2004

Oct/Nov 2009

2. Which action demonstrates a central bank's commitment to transparency in its policy formulation?
(A) Maintaining complete secrecy regarding macroeconomic projections to prevent market panic.
(B) Restricting the publication of the Monetary Policy Report to once every five years.
(C) Releasing internal reports like the LAF Report for public comment and holding pre-policy consultations.
(D) Codifying operational relationships with the government through highly confidential, non-disclosed agreements.

May/June 2023

3. How is the real balance effect defined in the context of monetary transmission?
(A) The impact of changes in the interest rate on the cost of borrowing for large corporate entities.
(B) The mechanism through which an appreciation of the domestic currency reduces the volume of net exports.
(C) The consumption and savings effect produced by changes in the value of real cash-balances held by the public.
(D) The process by which changes in money supply affect the equity prices and consequently the wealth of corporations.

Oct/Nov 2018

4. Which statement about lags in monetary policy is incorrect?
(A) The inside lag is the time required to recognize the economic problem.
(B) The outside lag refers to the time that elapses between the initiation of policy action and its final impact on the set goals.
(C) Execution lags in India are relatively short, allowing immediate transmission to the real sector without delays.
(D) The impact lag can be long and variable, often placed around 12 to 18 months.

May/June 2007

5. What characterizes the "time inconsistency" or "dynamic inconsistency" problem in central banking?
(A) The failure of the central bank to gather timely data, resulting in inappropriate policy rules.
(B) Preferring short-term gains in output at the cost of long-term output maximization with minimal inflation.
(C) The unpredictable lag between the implementation of open market operations and their effect on commercial bank reserves.
(D) The inability of financial markets to consistently predict the future trajectory of the central bank's policy rate.

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Oct/Nov 2025

6. Which of the following is NOT an identified transmission channel of monetary policy?
(A) The Interest Rate Channel
(B) The Demographic Dividend Channel
(C) The Exchange Rate Channel
(D) The Wealth Effect Channel

May/June 2012

7. Which of the following best defines monetary policy?
(A) It is the strategy adopted by the national government to manage its specific fiscal deficit and borrowing programs.
(B) It is the policy influencing the money supply to promote economic growth while

maintaining long-term price stability.
(C) It is the regulatory framework utilized to supervise the micro-level functions of domestic commercial banking entities.
(D) It is the mechanism employed to directly control the pricing of physical assets in the global commodity market.

Oct/Nov 2014

8. Which sequence accurately represents the operational flow of monetary policy implementation?
(A) Goals → Targets → Indicators → Instruments
(B) Instruments → Indicators → Targets → Goals
(C) Indicators → Instruments → Goals → Targets
(D) Targets → Instruments → Goals → Indicators

May/June 2019

9. Which statement regarding the debate between Rules vs Discretion is incorrect?
(A) A rule-based policy is argued to make monetary policy less discretionary and helps solve the time inconsistency problem.
(B) Discretionary policy is entirely obsolete and is no longer utilized by any central bank for maintaining financial stability.
(C) Discretionary policy allows the central bank to take timely actions in the wake of continuous changes and global economic shocks.
(D) Rules are useful for upholding credibility, while discretion may be necessary to resolve specific issues like financial crises.

Oct/Nov 2006

10. What is the quorum required for a meeting of the Monetary Policy Committee (MPC)?
(A) Three members
(B) Four members
(C) Five members
(D) Six members

May/June 2021

11. Under the Monetary Policy Framework Agreement (MPFA), which parameter is NOT correctly stated?
(A) The primary objective of monetary policy is to maintain price stability while keeping in view the objective of growth.
(B) The inflation target for 2016-17 and all subsequent years was set at 4 per cent with a band of +/- 2 per cent.
(C) The Reserve Bank is required to publish a bi-annual Monetary Policy Report (MPR).
(D) The central bank is deemed to have failed the target if inflation remains above 6 per cent for two consecutive quarters.

Oct/Nov 2010

12. How is an Open Market Operation (OMO) best described?
(A) The stipulation of margins by the central bank for lending against specific commodities.
(B) The acceptance of uncollateralized deposits by the central bank on an overnight basis from market participants.
(C) The purchase and sale of government securities by the central bank on its own account with banks and the public.
(D) The variation of the statutory reserve ratio of commercial banks to influence the money multiplier.

May/June 2005

13. How do selective credit controls function in managing the economy?
(A) They involve stipulations on exposure sizes, margin requirements, and mandated lending to specific sectors.
(B) They alter the overall cost of funds across all sectors simultaneously by changing the central bank's discount rate.
(C) They mandate the purchase of government securities by all commercial banks to fund the fiscal deficit.
(D) They exclusively involve the direct buying and selling of foreign currency in the international market to stabilize exchange rates.

Oct/Nov 2022

14. In the money multiplier process, why is the money multiplier considered a behavioral parameter?
(A) It is strictly mandated by the statutory laws and legislative acts enacted by the national government.
(B) It fluctuates based on the specific foreign exchange intervention strategies employed by the central bank.

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(C) It depends on public and bank portfolio decisions, making the impact of RM on money supply indirect.
(D) It is determined by the internal administrative protocols established for monitoring interbank transactions.

May/June 2018

15. Which of the following is NOT an argument advocated in favor of using discretionary monetary policy?
(A) Uncertainties about the impact of policy measures and lag structures.
(B) The need to address global economic shocks impacting the domestic economy.
(C) The requirement to ensure financial stability and tide over a sudden crisis.
(D) Eliminating the time inconsistency problem by strictly binding the central bank's future actions.

Oct/Nov 2016

16. What is the primary function of a monetary policy indicator?
(A) To measure policy action intensity and show target variable changes resulting specifically from those actions.
(B) To directly achieve the ultimate macroeconomic goals of sustained economic growth and long-term price stability.
(C) To act as the primary operational tool used by the central bank to intervene in the volatile foreign exchange market.
(D) To serve as the final macroeconomic variable that central banks aim to optimize through various regulatory measures.

May/June 2014

17. Which statement concerning the Standing Deposit Facility (SDF) and Marginal Standing Facility (MSF) is incorrect?
(A) The SDF rate serves as the upper bound (ceiling) of the LAF corridor.
(B) The SDF allows the Reserve Bank to accept uncollateralised deposits on an overnight basis.
(C) The MSF provides a safety valve against unanticipated liquidity shocks.
(D) The MSF rate is placed at 25 basis points above the policy repo rate.

Oct/Nov 2007

18. Under the Marginal Standing Facility (MSF), banks can borrow on an overnight basis by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a predefined limit. What is this predefined limit?
(A) 1 per cent
(B) 2 per cent
(C) 3 per cent
(D) 4.5 per cent

May/June 2025

19. What is the role of the Technical Advisory Committee (TAC) on Monetary Policy?
(A) It dictates the final policy repo rate without requiring approval from the Reserve Bank.
(B) It legally enforces the implementation of selective credit controls across all scheduled commercial banks.
(C) It manages the day-to-day liquidity operations under the Liquidity Adjustment Facility corridor.
(D) It serves an advisory role by reviewing macroeconomic developments and advising on the policy stance.

Oct/Nov 2019

20. According to the wealth effect channel, how does a high Tobin's q influence the economy?
(A) High firm market value relative to capital replacement costs makes new investment cheaper, stimulating spending.
(B) The market price of firms is low, causing firms to acquire existing old capital rather than investing in new physical assets.
(C) The purchasing power of individuals decreases, leading to a decline in equity prices and a subsequent fall in consumption.
(D) The central bank is forced to increase the policy repo rate to curb excessive speculative activities in the real estate market.

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May/June 2009

21. Which of the following is NOT cited as a specific area of central bank operation that frequently displays a lack of transparency?
(A) Minutes of the meetings of Central Bank Governing Boards or Policy Groups.
(B) Information about the agenda placed in Policy Group meetings for discussion.
(C) The publication of quarterly and annual reports detailing broad macroeconomic

Oct/Nov 2025

48. Match the monetary policy instruments in List I with their corresponding characteristics in List II:

List I: (Monetary Policy Instruments)

P. Bank Rate
Q. Open Market Operations
R. Cash Reserve Ratio
S. Selective Credit Controls

List II: (Characteristics)

1. Affects the aggregate deposits and ability of banks to lend by impounding a portion of cash without generally paying interest.
2. Involves stipulations about maximum sizes of exposure to individual borrowers and margin requirements.
3. The rate at which commercial banks can borrow from or rediscount bills with the central bank.
4. Increases or decreases High Powered Money through the purchase or sale of government securities.

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-2, R-3, S-4

May/June 2012

49. Identify the incorrect pair regarding macroeconomic variables and policy execution.

(A) Outside lag — Time required to recognize an economic problem before acting.
(B) High Powered Money — Primarily composed of currency with the public, cash in bank vaults, and bank reserves with the central bank.
(C) Proxy for measuring inflation in India — Wholesale price index of all commodities in some traditional studies.
(D) Taylor Principle — The real interest rate should be raised when inflation increases.

Oct/Nov 2014

50. Match the act sections in List I with their provisions in List II:

List I: (RBI Act/BR Act Sections)

P. Section 42 of RBI Act
Q. Section 24 of BR Act
R. Section 45ZB of RBI Act
S. Section 45ZL of RBI Act

List II: (Provisions)

1. Provides for the constitution of a six-member Monetary Policy Committee.
2. Mandates the publication of the minutes of the MPC proceedings on the fourteenth day.
3. Stipulates the requirement to maintain the Statutory Liquidity Ratio (SLR).
4. Relates to the maintenance of the Cash Reserve Ratio (CRR).

(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-2, R-4, S-3

May/June 2019

51. Consider the following actions undertaken by the Reserve Bank of India to enhance transparency and communication:

I. Publishing the minutes of the MPC meetings on the fourteenth day after the meeting.
II. Publishing a bi-annual Monetary Policy Report (MPR).
III. Withholding all statistical data related to banking operations to prevent market speculation.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2006

52. Arrange the sequence of variables in the monetary policy transmission channel from initiation to final impact:

I. Target Variables
II. Instruments
III. Goals
IV. Indicators

(A) I, II, III, IV
(B) II, IV, I, III
(C) II, I, IV, III
(D) IV, II, I, III

May/June 2021

53. Match the committees and groups in List I with their functions in the policy process in List II:

List I: (Committees/Groups)

P. Technical Advisory Committee (TAC)
Q. Financial Market Committee (FMC)
R. Monetary Policy Strategy Group
S. Monetary Policy Committee (MPC)

List II: (Functions)

1. Meets regularly to take a medium-term view

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penal action since cash reserves impounded are generally not remunerated sufficiently.

Oct/Nov 2021

30. In an emerging market economy, how do strong net capital inflows typically impact the domestic macroeconomic environment initially?
(A) They result in a decrease in money supply and a depreciation of the domestic currency.
(B) They cause monetary contraction, leading to deflationary pressures and an improvement in the balance of payments.
(C) They lead to an immediate fall in domestic equity prices and a reduction in the central bank's foreign exchange reserves.
(D) They result in higher money supply, currency appreciation, and potential inflationary pressures.

May/June 2024

31. Arrange the procedural steps following a Monetary Policy Committee (MPC) meeting in the correct chronological order:
I. Public release of the policy resolution detailing the repo rate decision.
II. Convening of the MPC meeting for voting and decision.
III. Publication of the minutes of the MPC meeting.
IV. Release of the bi-annual Monetary Policy Report (MPR) (if applicable in that cycle).
(A) II, I, III, IV
(B) I, II, III, IV
(C) II, III, I, IV
(D) III, II, IV, I

Oct/Nov 2008

32. Identify the incorrect pair regarding central bank liquidity facilities.
(A) Marginal Standing Facility (MSF) — Allows banks to borrow overnight by dipping into SLR up to a predefined limit.
(B) Standing Deposit Facility (SDF) — Accepts collateralised deposits from banks at a penal rate.
(C) Main Liquidity Management Tool — A 14-day term repo/reverse repo auction.
(D) LAF Corridor — Bounded by the MSF rate at the ceiling and the SDF rate at the floor.

May/June 2006

33. How do central banks in developing economies practically approach the difficulty of quantifying the full employment output level to reconcile dual objectives?
(A) They strictly use the unemployment data as the primary metric, ignoring output entirely.
(B) They estimate trend growth to approximate potential output, aiming to minimize actual output gaps.
(C) They assume full employment is always naturally achieved and focus solely on the exchange rate.
(D) They rely exclusively on the statutory liquidity ratio to balance the output gap.

Oct/Nov 2017

34. Consider the following statements regarding the Monetary Policy Committee (MPC):
I. Each member of the MPC has one vote, and the Governor has a second or casting vote in the event of an equality of votes.
II. The MPC is required to meet at least four times in a year.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2008

35. Match the types of lags in List I with their descriptions in List II:
List I: (Types of Lags)
P. Inside Lag
Q. Outside Lag
R. Recognition Lag
S. Impact Lag
List II: (Descriptions)
1. The time that elapses between the initiation of policy action and its final effect on the set goals.
2. The delay in identifying potential economic problems due to data constraints.
3. The total time required to recognize a problem before any action is taken.
4. The period between policy execution and the actual outcome, often taking 12 to 18 months.
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-4, R-2, S-1

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statistics.
(D) The detailed operational aspects of the relationship between central banks and governments.

Oct/Nov 2011

22. Based on empirical studies, what is the identified threshold rate of inflation for developing countries beyond which inflation would have a negative impact on growth?
(A) 1 to 3 per cent
(B) 4 to 5 per cent
(C) 7 to 11 per cent
(D) 12 to 15 per cent

May/June 2010

23. Why is Reserve Money (RM) considered a proximate variable rather than a final target variable?
(A) Because variations in RM are entirely determined by non-policy influences and exogenous market forces.
(B) Because RM is identical to the broad money supply and directly dictates inflation without transmission lags.
(C) Because RM is solely used to manage foreign exchange reserves and has no bearing on domestic liquidity.
(D) Because RM influences money supply via the multiplier, affecting goal variables like output and price levels.

Oct/Nov 2024

24. Which statement regarding the Bank Rate is incorrect?
(A) It is the rate at which commercial banks can borrow from or rediscount bills with the central bank.
(B) Central banks generally lend on a collateral basis rather than a 'clean' basis when using the discount window.
(C) Access to central bank funds at the Bank Rate is often discretionary and subject to stipulated margins.
(D) The Bank Rate acts as a purely indicative rate and has no relationship with the penalty rates levied on CRR defaults.

May/June 2017

25. In the Taylor Rule equation $R = r^* + p + a((y - y^*) - 1) + b(p - p^*)$, what does the parameter p^* represent?
(A) The actual rate of inflation
(B) The target rate of inflation
(C) The target short-term nominal interest rate
(D) The equilibrium real interest rate

Oct/Nov 2005

26. In the context of monetary policy formulation, what does the "inside lag" refer to?
(A) The time elapsed between the initiation of policy action and its final impact on the set goals.
(B) The delay caused by institutional and legal constraints during the execution of a policy measure.
(C) The period during which the commercial banks adjust their lending rates in response to central bank rate cuts.
(D) The time required to recognize a problem and gather reliable data to formulate an intuitive policy judgment.

May/June 2020

27. Which of the following is NOT traditionally considered a candidate for a monetary policy target variable?
(A) Total population growth rate
(B) Money supply
(C) Bank credit
(D) Interest rates in the securities market

Oct/Nov 2015

28. In case of a default in the maintenance of the Cash Reserve Ratio (CRR) requirement on a daily basis, what is the current minimum daily maintenance requirement to avoid penal interest?
(A) 90% of the total CRR requirement
(B) 95% of the total CRR requirement
(C) 98% of the total CRR requirement
(D) 100% of the total CRR requirement

May/June 2013

29. Which statement regarding the Cash Reserve Ratio (CRR) is incorrect?
(A) An increase in CRR reduces the ability of commercial banks to lend or generate assets.
(B) CRR is calculated on an average daily basis over a fortnight.
(C) The central bank currently pays a high rate of interest to commercial banks on the entire CRR balances maintained with it.
(D) The use of CRR is sometimes considered a

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(D) I, II, and III

Oct/Nov 2023

42. Why did the money demand functions, which were generally stable in the US till 1973, become unstable subsequently?
(A) Due to the transition to a rigid gold standard.
(B) Because the central bank completely ceased all open market operations.
(C) Mainly because rapid financial innovations altered the stable relationship between money and interest.
(D) Due to the elimination of all reserve requirements for commercial banks.

May/June 2016

43. Identify the correct pair regarding the objectives of central banks.
(A) Tinbergen principle — The number of policy instruments must be strictly less than the number of objectives.
(B) Price Stability — Minimizing the variability of output while aiming for low and stable inflation.
(C) Inflation Targeting — Focusing entirely on maintaining an exchange rate peg regardless of domestic price levels.
(D) Dynamic inconsistency — Ensuring strict adherence to long-term rules over short-term discretionary gains.

Oct/Nov 2009

44. Match the scholars in List I with their contributions to monetary policy theory in List II:
List I: (Scholars)
P. Milton Friedman
Q. John B. Taylor
R. Patinkin
S. John Maynard Keynes
List II: (Contributions)
1. Highlighted the interest rate mechanism to demolish the validity of the direct Quantity Theory of Money.
2. Resurrected the Quantity Theory of Money (QTM) and advocated for money supply growth equal to output growth.
3. Used the real-balance effect to demonstrate how price flexibility leads to full employment.
4. Advocated a rule specifying how nominal interest rates should change in response to inflation and output divergences.
(A) P-1, Q-4, R-3, S-2
(B) P-2, Q-4, R-3, S-1
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-3, R-2, S-1

May/June 2023

45. Consider the following components that constitute the Liquidity Adjustment Facility (LAF) utilized by the Reserve Bank of India:
I. Overnight as well as term repo/reverse repos.
II. Standing Deposit Facility (SDF).
III. Marginal Standing Facility (MSF).
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2018

46. What is the most appropriate theoretical justification for central banks focusing heavily on price stability?
(A) It ensures that the government can maximize its fiscal deficit without raising interest rates.
(B) It facilitates investor planning and creates a conducive environment for growth-oriented investments.
(C) It artificially inflates equity prices, leading to immediate short-term capital gains for the public.
(D) It eliminates the need for maintaining foreign exchange reserves.

May/June 2007

47. Consider the following statements regarding the Real Balance Effect mechanism:
I. M/P represents the real balances where M is outside money and P is the price level.
II. If M/P goes up, households feel wealthier and are induced to consume more out of a given level of income.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

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efficient payment systems and secure savings options. By offering insurance and reliable ways to manage daily transactions, the formal financial system helps vulnerable populations manage risks and build long-term resilience, which is more effective than credit alone in achieving lasting inclusion.

99. (C) October 16, 2022
The launch of seventy-five Digital Banking Units in seventy-five districts across India was a landmark event in the country's digital journey. This initiative, inaugurated in late 2022, aimed to ensure that the benefits of digital banking reach every corner of the nation. These units serve as physical hubs that assist people in using digital services, bridging the gap between traditional banking and the modern digital economy.

100. (D) 97 indicators covering access, usage, and the quality of protection services
The Reserve Bank of India developed a comprehensive metric to track the progress of financial inclusion across the country. This index evaluates performance through nearly a hundred distinct indicators organized into three primary dimensions. By including usage and quality alongside physical access, the framework provides a holistic view of how effectively financial services reach the diverse Indian population.

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on the stance of monetary policy.
2. Holds daily meetings to review developments in money, forex, and securities markets.
3. Determines the policy repo rate required to achieve the inflation target.
4. Advises the Reserve Bank on the stance of monetary policy prior to formal announcements.

(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-1, R-2, S-3

Oct/Nov 2010

54. Consider the following statements regarding the Cash Reserve Ratio (CRR) in India:
I. CRR is calculated on an average daily basis over a fortnight based on the NDTL of the last Friday of the second preceding fortnight.
II. The Reserve Bank currently pays an interest rate of 10% per annum on all CRR balances maintained by banks.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

55. Identify the correct pair representing a transmission channel and its essential operational pre-condition.
(A) Wealth Effect Channel — A stock market where equity prices respond to money supply changes.
(B) Exchange Rate Channel — Strict capital controls and fixed exchange rates.
(C) Credit Channel — Elimination of all reserve requirements by the central bank.
(D) Interest Rate Channel — Complete insensitivity of investment decisions to borrowing costs.

Oct/Nov 2022

56. What is the principal argument of the Keynesian Interest Rate Mechanism regarding how money influences the commodity market?
(A) Money affects the commodity market via bond interest rates, which determine credit costs and investment.
(B) Money influences the commodity market directly through an overt increase in purchasing power.
(C) An increase in money supply directly causes an equivalent proportional increase in the price level without affecting interest rates.
(D) Money affects consumption exclusively by increasing the real cash balances of households, independent of interest rate movements.

May/June 2018

57. Consider the following factors that contribute to the difficulty in choosing an appropriate transmission channel in Emerging Market Economies (EMEs):
I. Lack of clarity in monetary-fiscal interactions.
II. Under-development of financial markets and lack of integration among them.
III. High dependence on external market financing rather than internal sources of finance.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2016

58. Match the Liquidity Adjustment Facility (LAF) components in List I with their specific definitions in List II:
List I: (LAF Components)
P. Standing Deposit Facility (SDF) Rate
Q. Marginal Standing Facility (MSF) Rate
R. Main Liquidity Management Tool
S. Reverse Repo Rate
List II: (Definitions)
1. A 14-day term repo/reverse repo auction operation to manage frictional liquidity.
2. The penal rate allowing banks to borrow overnight by dipping into their SLR portfolio.
3. The rate at which RBI accepts uncollateralised deposits on an overnight basis.
4. The fixed rate at which RBI absorbs liquidity against the collateral of eligible government securities.

(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-2, R-1, S-3

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8. (B) Instruments → Indicators → Targets → Goals
The execution of monetary policy follows a logical progression starting with specific tools used to influence the financial environment. These instruments first impact operational indicators, which subsequently affect intermediate targets such as money supply or interest rates. Finally, these changes work through the transmission mechanism to achieve ultimate macroeconomic goals like controlled inflation, high employment, and steady economic output.

9. (B) Discretionary policy is entirely obsolete and is no longer utilized by any central bank for maintaining financial stability.
The debate between rule-based and discretionary policy highlights different approaches to economic management. While rules provide predictability and help solve consistency issues, discretion offers the flexibility needed to respond to unexpected global shocks or financial crises. Most modern central banks employ a combination of both, as neither approach is entirely obsolete in a complex and rapidly changing global financial landscape.

10. (B) Four members
The Monetary Policy Committee is a statutory body responsible for determining the policy interest rate in India. To ensure diverse perspectives and robust decision-making, the legal framework mandates a minimum attendance for its meetings. This quorum is set at four members, ensuring that a majority of the six-member committee is present to deliberate and vote on critical policy resolutions.

11. (D) The central bank is deemed to have failed the target if inflation remains above 6 per cent for two consecutive quarters.
Under the Monetary Policy Framework Agreement, the Reserve Bank aims to maintain inflation within a specific range. A failure to meet this target is defined by specific timeframes and deviations. Specifically, if the average inflation remains outside the tolerance band for three consecutive quarters, it is considered a failure. This accountability mechanism ensures that the central bank remains focused on stability.

12. (C) The purchase and sale of government securities by the central bank on its own account with banks and the public.
Open market operations involve the buying and selling of government securities by the central bank in the open market. This tool is used to regulate the quantity of money in the banking system. When the bank buys securities, it injects liquidity, whereas selling them absorbs excess funds. These operations directly influence the level of reserve money and short-term interest rates.

13. (A) They involve stipulations on exposure sizes, margin requirements, and mandated lending to specific sectors.
Selective credit controls are qualitative tools used to regulate the flow of credit to specific sectors of the economy. Unlike quantitative tools that affect the total volume of money, these measures target individual industries or commodities to prevent speculative activities. By adjusting margin requirements or setting exposure limits, the central bank can influence credit allocation without changing the overall interest rate.

14. (C) It depends on public and bank portfolio decisions, making the impact of RM on money supply indirect.
The money multiplier represents the relationship between the monetary base and the total money supply. It is considered a behavioral parameter because it depends on the choices made by the public regarding cash holdings and the decisions of banks regarding excess reserves. Since these behaviors are not directly controlled by the central bank, the impact of reserve money changes is indirect.

15. (D) Eliminating the time inconsistency problem by strictly binding the central bank's future actions.
Discretionary policy is often favored because it allows central banks to react to unforeseen economic shocks and financial instabilities. It provides the flexibility to address lags and uncertainties in policy transmission. However, it does not bind future actions; instead, binding actions is a characteristic of rule-based policy. Discretion is valued for its adaptability during crises rather than for creating rigid predictability.

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(A) Long-term corporate bonds of AAA-rated companies.
(B) Equity shares of public sector undertakings.
(C) Unencumbered Government and other approved securities.
(D) Real estate holdings of the bank.

May/June 2010

65. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.
Assertion (A): The objective of price stability is fundamentally opposed to achieving economic growth.
Reason (R): Price stability encourages growth as investors can plan and execute their investment plans more effectively in a stable pricing environment.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. In the context of the EME's scenario, why is the unmanaged appreciation of the domestic currency viewed adversely by the central bank?
(A) It reduces export competitiveness, causing potential imbalances in the country's balance of payments.
(B) It reduces the purchasing power of domestic consumers for imported goods.
(C) It automatically forces commercial banks to lower their lending rates.
(D) It directly increases the government's fiscal deficit.

May/June 2017

67. Consider the following characteristics regarding a macroeconomic variable's suitability as a 'target variable' for monetary policy:
I. It should be reliably estimable and rapidly affected by policy instruments.
II. Non-policy influences on the variable should be relatively small.
III. It should be readily observable with little or no time lag.
IV. It should be immune to any direct intervention by the central bank.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2005

68. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.
Assertion (A): Under the Real Balance Effect, an increase in the price level (P) while keeping 'outside' money (M) constant reduces the real net wealth of the public.
Reason (R): 'Outside' money (M) represents currency issued by the public, which is a liability of the central bank or government.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

69. Under the Taylor Principle (where coefficient $b > 0$) in Country X, how should the nominal interest rate respond to the 2 percentage point rise in inflation above the target?
(A) Increase the nominal interest rate by more than 2 percentage points to raise the real interest rate.
(B) The nominal interest rate should be increased by exactly 1 percentage point.
(C) The nominal interest rate should be increased by exactly 2 percentage points.
(D) The nominal interest rate should be decreased to offset the rising cost of goods.

Oct/Nov 2015

70. Consider the following stakeholders involved in the Reserve Bank's consultative process for monetary policy formulation:
I. Indian Banks' Association (IBA).
II. Market participants like FIMMDA and FEDAI.
III. Credit rating agencies such as CRISIL and

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ICRA.
IV. Industry associations like ASSOCHAM and FIEO.
V. Professional forecasters and media analysts.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2013

71. When the EME's central bank issues MSS bonds to sterilize the impact of capital inflows, who bears the fiscal cost of the interest payments on these bonds?
(A) The national government, which may result in a higher gross fiscal deficit.
(B) The commercial banks that purchase the bonds.
(C) The foreign investors bringing in the capital.
(D) The central bank from its operational profits.

Oct/Nov 2021

72. Consider the following elements that must be included in the report sent to the Central Government if the RBI fails to meet the inflation target defined under the MPFA:
I. The reasons for the failure to achieve the inflation target.
II. Remedial actions proposed to be taken by the Bank.
III. An estimate of the time-period within which the target shall be achieved.
IV. A request for an automatic revision of the target bands by the IMF.
Which of the above statement(s) is/are correct?
(A) I, II, and IV only
(B) I, III, and IV only
(C) I, II, and III only
(D) II, III, and IV only

May/June 2024

73. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.
Assertion (A): In Emerging Market Economies (EMEs), as financial development progresses, the money supply channel may tend to weaken.
Reason (R): The proliferation of financial products and innovations alters the stability of money demand functions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.
Assertion (A): Central banks generally prefer policy frameworks completely devoid of rules to maximize daily discretionary freedom.
Reason (R): Relying on rule-based behavior imparts a degree of transparency to the central bank policy framework and prevents the dynamic inconsistency problem.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. If the central bank conducts an Open Market Operation (OMO) and purchases ₹500 crore worth of government securities directly from Alpha Bank, what is the immediate effect on Alpha Bank's balance sheet?
(A) Alpha Bank's NDTL decreases proportionally.
(B) Alpha Bank's CRR requirement increases automatically to offset the liquidity.
(C) Alpha Bank's lending capacity is reduced due to a loss of interest-bearing assets.
(D) Alpha Bank's reserves with the central bank increase, enhancing its ability to extend credit.

Oct/Nov 2017

76. Consider the following grounds on which discretionary monetary policy is advocated:
I. Uncertainties about the impact of policy measures.

NODIA

II. Global economic shocks impacting the domestic economy.
III. The need to maintain financial stability during a crisis.
IV. The desire to establish absolute predictability and rigid rule-based credibility above all else.

Which of the above statement(s) is/are correct?
(A) I, II, and IV only
(B) II, III, and IV only
(C) I, II, and III only
(D) I, III, and IV only

May/June 2008

77. Since Alpha Bank maintained only 85% of the required CRR on a daily basis (falling below the 90% minimum), what consequence will the bank face for the shortfall?
(A) The central bank will immediately revoke its primary banking license.
(B) The bank will be required to increase its SLR holdings by an equivalent percentage.
(C) No penalty will be levied if the shortfall is corrected during the reporting fortnight.
(D) Penal interest will be charged for that day at 3% above the Bank Rate on the shortfall amount.

Oct/Nov 2013

78. Consider the following factors that weaken the effectiveness of transmission channels in Emerging Market Economies (EMEs):
I. Lack of clarity in monetary-fiscal interactions.
II. Under-development of financial markets.
III. High degree of financial integration and perfectly elastic interest rates.
IV. Possibility of high imperfections in the bank credit market.
V. High dependence on internal sources of finance rather than leveraging.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2015

79. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.

Assertion (A): In India, the execution lags for implementing monetary policy actions are often minimized by implementing policy measures instantaneously in a single stroke.
Reason (R): The central bank prefers a phased implementation, termed interest rate smoothing, to evaluate the impact at each step.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

80. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.
Assertion (A): Central banks generally use selective credit controls very sparingly.
Reason (R): Such controls restrict the degrees of freedom for banks in managing their portfolios and may push borrowers to unorganized markets.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

81. How does the central bank utilize the Market Stabilisation Scheme (MSS) to manage the macroeconomic impact of these capital inflows in the EME?
(A) By selling foreign currency directly to retail investors at discounted rates.
(B) By lowering the Cash Reserve Ratio to absorb the foreign capital into the banking system.
(C) By issuing MSS bonds to purchase foreign currency and sterilize excess domestic liquidity.
(D) By levying a direct tax on all incoming foreign direct investments.

Oct/Nov 2020

82. Consider the following objectives that are generally pursued by central banks globally:
I. Maximum feasible output.
II. High rate of growth.
III. Full employment.
IV. Price stability.
V. Greater equality in the distribution of income and wealth.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2022

83. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.
Assertion (A): Reserve Money (RM) is not a perfect indicator of monetary policy actions.
Reason (R): The money multiplier, which links high powered money to money supply, is a behavioral parameter subject to endogenous non-policy influences.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. In applying the Taylor Rule to Country X, what role does the positive output gap (actual GDP > potential GDP) play in the calculation of the target nominal interest rate?
(A) It dictates a reduction in the nominal interest rate to stabilize production.
(B) It acts as a neutral variable that only affects long-term fiscal policy.
(C) It suggests a higher nominal interest rate is needed to cool the overheating economy.
(D) It offsets the inflation premium, rendering the inflation target irrelevant.

May/June 2016

85. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.
Assertion (A): The exchange rate channel requires international mobility of capital to function effectively.
Reason (R): Interest rate differentials trigger capital flows, making domestic deposits more or less attractive, thereby affecting the currency's value.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

86. Consider the following steps in the operation of the Interest Rate Channel in monetary transmission:
I. A change in the central bank policy rate leading to a change in the market interest rate.
II. Altered cost conditions affecting aggregate demand and investment spending.
III. The resulting growth in output impacting the price level.
IV. A direct, immediate, and exclusive change in the statutory reserve requirements.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, and IV only

May/June 2023

87. Assuming Alpha Bank maintains excess CRR balances (beyond the stipulated 4.50%) with the central bank to avoid future penalties. What interest will Alpha Bank earn on these excess CRR balances?
(A) The central bank pays interest at the prevailing Bank Rate.
(B) The central bank does not pay interest on any CRR balances maintained by banks.
(C) The central bank pays interest at 10% per annum as per the 1984 amendment.
(D) The central bank pays interest equivalent to the overnight reverse repo rate.

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Oct/Nov 2018

88. Consider the following elements included in the Monetary Policy Report (MPR) published by the RBI under the Monetary Policy Framework Agreement (MPFA) and the amended RBI Act:

I. Explanation of inflation dynamics in the last six months.
II. Projections of inflation and growth and the balance of risks.
III. An assessment of the state of the economy covering financial markets and fiscal situation.
IV. An updated review of the operating procedure of monetary policy.
V. The individual voting records of the MPC members.

Which of the above statement(s) is/are correct?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2007

89. Based on the Taylor Rule, what policy stance should the Central Bank of Country X adopt in this scenario?

(A) An "easy" monetary policy featuring a relatively low interest rate.
(B) A "tight" monetary policy featuring a relatively high interest rate.
(C) A neutral stance, maintaining the policy rate exactly equal to the target inflation rate.
(D) A policy of zero nominal interest rates to further stimulate the positive output gap.

Oct/Nov 2025

90. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.

Assertion (A): Every open market purchase of Government Securities by the central bank directly decreases High Powered Money.

Reason (R): When the central bank purchases securities, it absorbs liquidity from the market, reducing the reserves of commercial banks.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is false.

May/June 2012

91. Under the regulatory framework, what is the minimum number of times the MPC is required to meet in a year, and what is the quorum required for these meetings?

(A) Minimum two times a year; Quorum is three members.
(B) Minimum four times a year; Quorum is four members.
(C) Minimum six times a year; Quorum is five members.
(D) Minimum twelve times a year; Quorum is six members.

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Oct/Nov 2014

92. Considering the exchange rate channel in this open economy, what is the expected sequence of events following the reduction in the domestic interest rate?

(A) Domestic deposits become more attractive, capital flows in, domestic currency appreciates, and imports become cheaper.
(B) The exchange rate remains completely unaffected due to the immediate intervention of the central bank.
(C) Domestic deposits lose attractiveness, capital flows out, the currency depreciates, and net exports rise.
(D) Net exports decline sharply because domestic goods become more expensive to foreign buyers.

May/June 2019

93. According to the wealth effect channel, how will the policy rate cut most likely transmit to the real economy?

(A) It will reduce the money supply, lowering equity prices and stifling consumption.
(B) It will depress real estate values, prompting households to save more and consume less.
(C) It will lead to an immediate crash in the bond market, reducing corporate net worth.
(D) It increases liquidity, raising equity prices and household wealth, which boosts consumption.

Oct/Nov 2006

94. Given that CPI inflation has been at 6.8% for three consecutive quarters, what does this signify under the provisions of the MPFA?

May/June 2014

59. Consider the following statements regarding the sequencing of monetary policy execution:

I. Instruments directly alter target variables, which then subsequently modify indicators.

II. The sequence of influence runs from Instruments to Indicators to Targets, and finally to Goals.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2007

60. Match the variables in the Taylor Rule equation $R = r^* + p + a((y - y^*) - 1) + b(p - p^*)$ in List I with their meanings in List II:

List I: (Taylor Rule Variables)

P. R
Q. r^*
R. y^*
S. p

List II: (Meanings)

1. The rate of inflation as measured by the GDP deflator
2. The target short-term nominal interest rate
3. The potential output
4. The equilibrium real interest rate

(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-2, S-3

May/June 2025

61. Consider the following statements regarding the Statutory Liquidity Ratio (SLR) framework in India:

I. It ensures financial discipline on banks and provides protection to depositors.

II. The definition of SLR assumes these assets are the easiest stock to liquidate in a crisis.

III. The 1962 BR Act amendment raised the minimum SLR to 25 per cent of demand and time liabilities.

IV. It was initially conceived as a measure of securing bank liquidity but later became a tool to mobilize resources for the Government.

V. Currently, the RBI pays a 10% premium on all excess SLR holdings to boost profitability.

Which of the above statement(s) is/are correct?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, IV, and V only

Oct/Nov 2019

62. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option to describe their relationship.

Assertion (A): There is a case for maintaining some degree of opaqueness in certain central bank policy areas rather than ensuring absolute transparency.

Reason (R): Reports disseminated by the central bank might be interpreted differently by different sections, potentially causing market panic or distortion.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

63. Consider the following statements regarding Open Market Operations (OMOs):

I. Every open market purchase of Government Securities by the central bank increases High Powered Money.

II. The central bank acts as an agent to sell new government loans directly on 'tap'.

III. OMOs can be structured over different maturities depending on liquidity conditions.

IV. Repurchase (repo) agreements are considered a shortened form of OMOs.

Which of the above statement(s) is/are correct?

(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2011

64. To fulfill its SLR requirement of 18.0%, Alpha Bank holds various assets. Which of the following instruments is explicitly defined as an eligible 'liquid asset' for meeting SLR requirements?

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ANSWERS

1. (C) 2000
The Liquidity Adjustment Facility was implemented by the Reserve Bank of India in June 2000. It was introduced following recommendations from the Narasimham Committee on Banking Sector Reforms. This mechanism allows the central bank to manage market liquidity effectively through repo and reverse repo auctions, ensuring stability in the short-term interest rate environment across the financial system.

2. (C) Releasing internal reports like the LAF Report for public comment and holding pre-policy consultations.
Central banks enhance policy transparency by sharing detailed reports and engaging in public consultations before major decisions. By releasing internal documents and seeking feedback from diverse stakeholders, the monetary authority builds credibility and reduces market uncertainty. This open approach ensures that participants understand the rationale behind policy shifts, fostering a more predictable and stable macroeconomic environment for growth.

3. (C) The consumption and savings effect produced by changes in the value of real cash-balances held by the public.
The real balance effect describes how changes in the price level influence the purchasing power of liquid assets held by the public. When prices fall, the real value of cash balances increases, making individuals feel wealthier. Consequently, this increase in perceived wealth stimulates higher consumption and shifts the aggregate demand, demonstrating a direct link between monetary values and spending.

4. (C) Execution lags in India are relatively short, allowing immediate transmission to the real sector without delays.
Monetary policy faces significant delays between implementation and its actual effect on the real economy. While inside lags involve recognizing and responding to economic shifts, outside lags represent the time for measures to influence output and prices. In developing economies, these lags are often long and variable, making immediate transmission to the real sector practically impossible to achieve.

5. (B) Preferring short-term gains in output at the cost of long-term output maximization with minimal inflation.
Time inconsistency occurs when a central bank deviates from its long-term objectives to pursue immediate economic benefits, such as a temporary boost in employment. This behavior often leads to higher inflation expectations among the public, ultimately undermining the bank's credibility. Resolving this issue usually requires a commitment to rules that prioritize long-term price stability over short-term political or economic gains.

6. (B) The Demographic Dividend Channel
Transmission channels include mechanisms like interest rates, credit, exchange rates, and asset prices. These pathways allow policy changes to influence aggregate demand and inflation. Unlike financial or economic variables, demographic shifts are structural trends rather than active policy transmission routes. Focusing on interest rates and wealth effects ensures that monetary actions reach various sectors of the economy effectively.

7. (B) It is the policy influencing the money supply to promote economic growth while maintaining long-term price stability.
Monetary policy refers to the strategic management of money supply and interest rates by a central authority. Its primary purpose is to maintain price stability while supporting sustainable economic growth. By utilizing various instruments like reserve ratios and open market operations, the central bank influences liquidity conditions to align the economy with broader macroeconomic objectives and long-term financial health.

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(A) The Reserve Bank has successfully maintained inflation within the acceptable long-term structural limits.
(B) The MPC must immediately reduce the policy repo rate to stimulate output.
(C) The Bank failed the inflation target because average inflation exceeded the tolerance level for three quarters.
(D) The Central Government must automatically dissolve the current MPC and appoint new members.

May/June 2021

95. The MPC consists of six members. During the voting on the policy resolution, if there is a tie with three members voting for a rate hike and three members voting against it, how is the deadlock resolved?
(A) The Governor of the Reserve Bank exercises a second or casting vote.
(B) The decision is deferred to the next scheduled meeting.
(C) The Central Government intervenes to cast the deciding vote.
(D) The proposal is automatically rejected.

Oct/Nov 2010

96. Following the rate cut, the market value of firms increases significantly relative to the replacement cost of capital (Tobin's q becomes high). What is the expected corporate behavior?
(A) Firms will resist purchasing new equipment because their market value is lower than replacement costs.
(B) Firms will issue equities at high prices and invest in new plant and infrastructure equipment.
(C) Firms will exclusively acquire old capital from competitors rather than investing in new infrastructure.
(D) Firms will shut down operations and return capital to shareholders.

May/June 2005

97. Following the conclusion of the MPC meeting, by when must the Reserve Bank publish the detailed minutes of the proceedings, including the voting records of each member?
(A) On the 14th day after every meeting.
(B) Immediately on the same day at 5 PM.
(C) On the 7th day after the meeting.
(D) Within one month alongside the Monetary Policy Report.

Oct/Nov 2022

98. According to the inflation target notified by the Central Government under the MPFA, what is the exact target and tolerance band the MPC is striving to achieve?
(A) 5.0 per cent with an upper tolerance of 7.0 per cent and a lower tolerance of 3.0 per cent.
(B) 4.0 per cent with an upper tolerance of 6.0 per cent and a lower tolerance of 2.0 per cent.
(C) 6.0 per cent with a rigid tolerance band of +/- 1 per cent.
(D) 3.0 per cent with an upper tolerance of 5.0 per cent and a lower tolerance of 1.0 per cent.

May/June 2018

99. How does the balance sheet (credit) channel operate following this expansionary monetary policy?
(A) It decreases the aggregate deposits in banks, forcing them to call back existing loans.
(B) It negatively affects the liquidity profile of consumers, making them hoard financial assets rather than spending.
(C) It increases information asymmetries between borrowers and lenders, leading to credit rationing.
(D) Reduced borrowing costs improve firm net worth and cash flows, easing constraints and spurring investment.

Oct/Nov 2016

100. Because the Reserve Bank has failed to meet the inflation target in this scenario, what specific regulatory action is it mandated to take?
(A) It must increase the CRR to 15% immediately.
(B) It must publicly apologize and revise the target inflation rate to match the current actual inflation.
(C) It must cease all open market operations until inflation naturally subsides below 6%.
(D) It must report to the Government the reasons for failure, remedial actions, and an achievement timeline.

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16. (A) To measure policy action intensity and show target variable changes resulting specifically from those actions.
Monetary policy indicators are variables used to assess the stance and effectiveness of a central bank's actions. They help determine whether the policy is expansionary or contractionary by reflecting changes in the financial environment. By monitoring these indicators, the authority can judge the intensity of its interventions and how they are influencing target variables, eventually leading toward the final economic goals.

17. (A) The SDF rate serves as the upper bound (ceiling) of the LAF corridor.
The liquidity management framework uses specific facilities to create an interest rate corridor. The Standing Deposit Facility allows banks to place excess funds without collateral and acts as the floor of the corridor. Conversely, the Marginal Standing Facility serves as the ceiling, providing emergency overnight funds. The policy repo rate sits between these two bounds, guiding the weighted average call rate.

18. (B) 2 per cent
The Marginal Standing Facility is designed to help commercial banks manage sudden liquidity shortages. Under this window, banks can borrow overnight funds from the Reserve Bank by using their government security holdings. Specifically, they are permitted to dip into their Statutory Liquidity Ratio portfolio up to a limit of two per cent of their net demand and time liabilities.

19. (D) It serves an advisory role by reviewing macroeconomic developments and advising on the policy stance.
The Technical Advisory Committee on Monetary Policy was established to provide expert guidance to the Reserve Bank. Its primary role involves reviewing macroeconomic and monetary developments to advise on the appropriate policy stance. Although its recommendations are not legally binding, the committee's insights help the central bank make informed decisions regarding interest rates and liquidity management before formal policy announcements.

20. (A) High firm market value relative to capital replacement costs makes new investment cheaper, stimulating spending.
Tobin's q represents the ratio between the market value of a firm and the replacement cost of its capital. When this ratio is high, the market value exceeds the cost of purchasing new equipment. This encourages firms to issue new equity and invest in physical assets, as it is relatively inexpensive to expand. Consequently, a high q stimulates corporate spending and growth.

21. (C) The publication of quarterly and annual reports detailing broad macroeconomic statistics.
Central bank transparency involves making policy objectives and processes clear to the public. Areas that often remain opaque include internal meeting minutes, specific agendas, and the operational details of government relationships. However, the publication of regular quarterly and annual reports containing broad macroeconomic statistics is a standard practice and is generally considered a transparent activity rather than an area lacking clarity.

22. (C) 7 to 11 per cent
Empirical research suggests that while moderate inflation can accompany growth, exceeding certain levels becomes detrimental. For developing economies, this threshold is generally identified between seven and eleven per cent. Beyond this range, rising prices create uncertainty, distort investment decisions, and erode purchasing power, leading to a negative impact on overall economic performance and long-term sustainability of the growth process.

23. (D) Because RM influences money supply via the multiplier, affecting goal variables like output and price levels.
Reserve Money, or high-powered money, is classified as a proximate variable because it serves as the foundation for the broader money supply. The central bank can influence this base directly through its operations. Through the money multiplier process, changes in reserve money eventually affect the total money in circulation, which then impacts the final policy goals like output and price levels.

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financial system. This often leads to a rise in equity prices and other asset values. As the market value of their holdings increases, households experience a boost in their perceived wealth, which encourages them to spend more on consumption. This increased spending subsequently supports economic growth and aggregate demand.

94. (C) The Bank failed the inflation target because average inflation exceeded the tolerance level for three quarters.
The inflation target in India is set at 4 per cent with a tolerance band of +/- 2 per cent, meaning the upper limit is 6 per cent. Under the MPFA, if the average inflation stays above this tolerance level for three consecutive quarters, the Reserve Bank is considered to have failed the target. This situation triggers a mandatory reporting requirement to the Central Government.

95. (A) The Governor of the Reserve Bank exercises a second or casting vote.
In the event of an equality of votes among the members of the Monetary Policy Committee, the decision is not left in a stalemate. The Governor of the Reserve Bank of India is legally empowered to exercise a second or casting vote. This ensures that the committee can reach a definitive resolution on the policy repo rate and maintain the continuity of the monetary policy process.

96. (B) Firms will issue equities at high prices and invest in new plant and infrastructure equipment.
When Tobin's q is high, a firm's market value is significantly greater than the cost of replacing its capital. In this situation, the firm can raise capital very cheaply by issuing new shares. The proceeds can then be used to invest in new plants, equipment, and infrastructure. This corporate behavior leads to higher overall investment spending in the economy, stimulated by the expansionary monetary policy.

97. (A) On the 14th day after every meeting.
The Reserve Bank of India is required to maintain a high level of transparency regarding the decisions made by the Monetary Policy Committee. To achieve this, the detailed minutes of each meeting, which include the rationale for decisions and the individual voting records of all members, must be published. The legal requirement is to release these minutes precisely on the fourteenth day following the meeting.

98. (B) 4.0 per cent with an upper tolerance of 6.0 per cent and a lower tolerance of 2.0 per cent.
Under the Monetary Policy Framework Agreement, the Central Government has notified a specific inflation target for the country. The target is set at 4.0 per cent for the Consumer Price Index. To allow for economic fluctuations, a tolerance band of +/- 2 per cent is provided. This creates a functional range between a lower limit of 2.0 per cent and an upper limit of 6.0 per cent.

99. (D) Reduced borrowing costs improve firm net worth and cash flows, easing constraints and spurring investment.
The balance sheet or credit channel operates by improving the financial health of borrowers. An expansionary policy reduces borrowing costs, which increases the net worth and cash flows of firms. This improvement reduces the risks associated with lending and lessens information asymmetries. Consequently, firms find it easier to obtain credit, which eases their financial constraints and encourages them to increase their investment spending.

100. (D) It must report to the Government the reasons for failure, remedial actions, and an achievement timeline.
When the Reserve Bank fails to meet its inflation target as defined by the MPFA, it must fulfill a specific accountability requirement. The bank is mandated to submit a formal report to the Central Government. This report must clearly explain the reasons why the target was missed, outline the remedial actions the bank intends to take, and provide an estimated timeframe for achieving the target.

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the reverse repo facility, which is a collateralised operation.

33. (B) They estimate trend growth to approximate potential output, aiming to minimize actual output gaps.
Quantifying the full employment level of output is challenging, especially in developing nations with sparse data. In practice, central banks often estimate trend growth to approximate the economy's potential output. By identifying the gap between actual and potential output, policy makers can adjust interest rates to prevent overheating or to stimulate growth without relying exclusively on difficult-to-measure unemployment statistics.

34. (C) Both I and II
The Monetary Policy Committee operates under a democratic voting system where each of its six members holds one vote. In the event of a tie, the Governor is granted a casting vote to finalize the decision. Furthermore, the legal framework requires the committee to convene at least four times annually to review economic conditions and determine the policy repo rate.

35. (A) P-3, Q-1, R-2, S-4
Inside lags represent the total time taken to recognize a problem and initiate action. The outside lag is the period between that action and its final impact on goals. Within these, the recognition lag is the specific delay in identifying issues due to data constraints, while the impact lag is the duration it takes for the policy outcome to fully manifest in the economy.

36. (D) I, II, and III
Selective credit controls include various measures to direct credit toward specific sectors or away from speculative uses. These include setting maximum exposure limits for individual borrowers to prevent concentration risk, mandating lending to priority sectors like agriculture, and stipulating margin requirements for loans against sensitive commodities. All these tools allow the central bank to manage credit quality and allocation effectively.

37. (A) High Powered Money (Reserve Money)
An effective monetary policy indicator must be highly sensitive to the actions of the central bank and accurately reflect the policy stance. High Powered Money, or reserve money, is considered a superior indicator because it is directly influenced by the central bank's operations, such as open market purchases. Its movements are more within the authority's control compared to broader aggregates like M3.

38. (A) P-4, Q-2, R-3, S-1
Liquidity assessment exercises help the central bank gauge market demand and supply of funds. General refinance facilities support developmental goals by providing credit to specific sectors at lower rates. The Market Stabilisation Scheme is used to sterilize excess liquidity from capital inflows. Finally, open market purchases inject permanent liquidity into the system, increasing the base of high-powered money for the economy.

39. (C) Both I and II
The Taylor Rule uses positive coefficients for inflation and output gaps to determine the target interest rate. This ensures that rates rise when inflation or output exceed their targets. The rule effectively assigns relative weights to these two objectives, helping the central bank navigate conflicts between reducing inflation and promoting growth through a systematic and predictable interest rate adjustment framework.

40. (B) P-3, Q-1, R-4, S-2
The real balance effect focuses on the value of cash balances held by the public. The interest rate channel operates through the cost of borrowing and its impact on investment. The exchange rate channel is triggered by interest differentials affecting capital flows and currency values. Lastly, the wealth effect channel links equity prices and Tobin's q to household consumption and corporate spending.

41. (A) I and II only
The Monetary Policy Framework Agreement defines a failure to meet the inflation target based on the duration of the deviation. If the average inflation remains either above the upper tolerance level or below the lower tolerance level for three consecutive quarters, the target is considered unmet. Changes in the policy repo rate itself do not define a failure to meet the target.

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uncertainties regarding policy impact and respond to sudden global economic shocks. It also provides the flexibility needed to maintain financial stability during crises. However, the pursuit of absolute predictability through rigid rules is an argument for rule-based policy, not discretionary policy, which prioritizes flexibility over fixed, pre-determined actions.

77. (D) Penal interest will be charged for that day at 3% above the Bank Rate on the shortfall amount.
If a bank fails to maintain the required minimum daily balance of the Cash Reserve Ratio, it faces regulatory penalties. For a shortfall below the ninety per cent daily maintenance requirement, the central bank charges penal interest on the deficit amount. Currently, this penalty is set at three per cent above the Bank Rate for that specific day, ensuring banks adhere to liquidity mandates.

78. (B) I, II, IV, and V only
Several factors can weaken monetary transmission in emerging markets, including unclear monetary-fiscal interactions and under-developed financial markets. Imperfections in credit markets and a heavy reliance on internal funding rather than bank loans also play a role. However, a high degree of financial integration and perfectly elastic interest rates would actually strengthen transmission, making the third statement an incorrect factor for weakening it.

79. (D) Assertion (A) is false, but Reason (R) is true.
The assertion that execution lags are minimized by instantaneous implementation is incorrect. In practice, central banks often prefer a phased approach, known as interest rate smoothing. By making gradual adjustments to interest rates, the authority can carefully evaluate the economy's response at each step. This cautious strategy helps prevent market volatility and allows for better calibration of policy measures over time.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Selective credit controls are used sparingly by central banks because they can be quite intrusive. These measures restrict the freedom of commercial banks to manage their own portfolios and can lead to market inefficiencies. Furthermore, if credit is strictly limited in the formal sector, borrowers might be driven toward unorganized markets, which are harder to regulate and can carry higher risks for the overall economy.

81. (C) By issuing MSS bonds to purchase foreign currency and sterilize excess domestic liquidity.
The Market Stabilisation Scheme is a tool used to manage the impact of large capital inflows. The central bank issues MSS bonds to the market to absorb the excess domestic liquidity that results when it purchases foreign currency to stabilize the exchange rate. These bonds allow the bank to sterilize the monetary base, preventing an unwanted expansion of the money supply and curbing potential inflation.

82. (D) I, II, III, IV, and V
Central banks around the world generally pursue a broad set of macroeconomic objectives. These include achieving the maximum feasible output, promoting high economic growth, and maintaining full employment. Additionally, price stability is a core goal, often prioritized to ensure a stable environment. Some central banks also consider social objectives, such as promoting greater equality in the distribution of income and wealth.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Reserve Money is not always a perfect indicator of policy because its link to the total money supply is mediated by the money multiplier. This multiplier is a behavioral parameter influenced by the decisions of both the public and the banking system. Since these behaviors are not entirely under the central bank's control, changes in reserve money may not translate into predictable changes in the money supply.

84. (C) It suggests a higher nominal interest rate is needed to cool the overheating economy.
In the Taylor Rule, a positive output gap occurs when the actual GDP exceeds the economy's potential output, indicating overheating. To address this, the rule suggests that the central bank should set a higher nominal interest rate. Raising rates helps to reduce aggregate demand, thereby cooling the economy and preventing

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Section 45ZB of the RBI Act provides for the establishment of the Monetary Policy Committee. Finally, Section 45ZL mandates that the minutes of MPC meetings be published exactly fourteen days after the proceedings.

51. (A) I and II only
To improve communication and transparency, the Reserve Bank publishes the detailed minutes of every Monetary Policy Committee meeting exactly fourteen days after its conclusion. Additionally, it releases a bi-annual Monetary Policy Report that provides in-depth analysis and economic projections. These measures provide the public and markets with a clear understanding of the bank's policy stance and rationale, enhancing predictability.

52. (B) II, IV, I, III
The transmission of monetary policy begins with the central bank deploying its instruments, such as the repo rate. These actions first influence operational indicators like the call money rate. These indicators then affect intermediate targets, such as the broader money supply or total bank credit. Ultimately, these changes impact the final goals of the economy, including price stability and output growth.

53. (B) P-4, Q-2, R-1, S-3
The Technical Advisory Committee advises the bank on the policy stance before official announcements. The Financial Market Committee meets daily to monitor developments in the money, foreign exchange, and securities markets. The Monetary Policy Strategy Group focuses on the medium-term policy view. Finally, the Monetary Policy Committee is the statutory body that determines the policy repo rate to hit inflation targets.

54. (A) Only I
In India, the Cash Reserve Ratio is calculated based on a bank's net demand and time liabilities from the last Friday of the second preceding fortnight. Banks are required to maintain this average balance throughout the reporting period. However, the assertion that the Reserve Bank pays interest on these balances is incorrect, as CRR holdings are generally unremunerated to act as a liquidity tool.

55. (A) Wealth Effect Channel — A stock market where equity prices respond to money supply changes.
The wealth effect channel relies on the premise that changes in the money supply influence asset prices, particularly in the stock market. For this channel to function, equity prices must respond to monetary policy shifts. When asset values rise, household wealth increases, leading to higher consumption. This mechanism requires a reasonably developed financial market where equity prices can act as a bridge between policy and spending.

56. (A) Money affects the commodity market via bond interest rates, which determine credit costs and investment.
The Keynesian approach suggests that money influences the commodity market through an indirect interest rate mechanism. An increase in the money supply leads to lower interest rates on bonds. This reduction in the cost of borrowing encourages businesses to increase their investment spending. Consequently, the rise in investment boosts aggregate demand and affects output, demonstrating how monetary changes transmit to the real economy.

57. (A) I and II only
Emerging market economies face challenges in monetary transmission due to several factors. These include a lack of clear boundaries between monetary and fiscal policies and under-developed financial markets that are often not well-integrated. Such structural issues can weaken the link between policy actions and their intended economic outcomes. However, a high dependence on external financing is not universally cited as a primary reason for this difficulty.

58. (A) P-3, Q-2, R-1, S-4
The Standing Deposit Facility rate is the uncollateralised overnight absorption rate. The Marginal Standing Facility rate is the penal borrowing rate that allows banks to use their SLR holdings. The main liquidity management tool involves 14-day term repo or reverse repo auctions. The reverse repo rate is the fixed rate at which the central bank absorbs liquidity using government securities as collateral.

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24. (D) The Bank Rate acts as a purely indicative rate and has no relationship with the penalty rates levied on CRR defaults.
The Bank Rate is the standard rate at which the central bank is prepared to buy or rediscount bills of exchange. It traditionally serves as a signaling device for the monetary policy stance. Importantly, it is also linked to various penal interests, such as those charged for defaults in maintaining required reserves. Therefore, saying it has no relationship with penalty rates is factually incorrect.

25. (B) The target rate of inflation
The Taylor Rule is a formula used to suggest how central banks should adjust interest rates in response to economic conditions. In the equation, p* specifically denotes the desired or target rate of inflation that the monetary authority aims to achieve. The rule helps balance the trade-offs between stabilizing prices and maintaining output near its potential level by providing a systematic framework.

26. (D) The time required to recognize a problem and gather reliable data to formulate an intuitive policy judgment.
The inside lag refers to the internal time required for a central bank to respond to an economic change. It consists of the recognition lag, which is the time needed to identify a problem through data analysis, and the decision lag, which is the time taken to formulate a policy response. Minimizing these delays is crucial for ensuring timely and effective interventions.

27. (A) Total population growth rate
Monetary policy targets are intermediate variables that the central bank can influence to achieve its ultimate goals. Common targets include money supply, bank credit, and interest rates. These variables have a stable relationship with output and inflation. Population growth, however, is a demographic and structural factor that falls outside the direct influence and scope of traditional monetary policy implementation and targeting.

28. (A) 90% of the total CRR requirement
Commercial banks in India are required to maintain a specific percentage of their deposits as reserves with the central bank. While this requirement is calculated over a fortnight, there is a minimum daily maintenance level. To avoid penal interest, banks must ensure that their daily cash reserve balance does not fall below ninety per cent of the total required amount for that period.

29. (C) The central bank currently pays a high rate of interest to commercial banks on the entire CRR balances maintained with it.
The Cash Reserve Ratio is a quantitative tool used to control liquidity by mandating that banks keep a portion of their deposits with the central bank. These reserves are generally unremunerated, meaning the central bank does not pay interest on them. This lack of interest income is why the CRR is sometimes viewed as a tax or a penal action on the banking system.

30. (D) They result in higher money supply, currency appreciation, and potential inflationary pressures.
Significant capital inflows into an emerging market economy increase the demand for the domestic currency and expand the monetary base. This often leads to an appreciation of the currency and an increase in the domestic money supply. If left unmanaged, these conditions can create inflationary pressures and affect export competitiveness, necessitating intervention by the central bank to maintain macroeconomic stability and balance.

31. (A) II, I, III, IV
The policy process follows a specific timeline to ensure transparency. First, the Monetary Policy Committee meets to deliberate and vote on the repo rate. Immediately after, the policy resolution is released to the public. Detailed minutes of the meeting are then published on the fourteenth day. Finally, a comprehensive Monetary Policy Report is released bi-annually to provide deeper economic analysis and projections.

32. (B) Standing Deposit Facility (SDF) — Accepts collateralised deposits from banks at a penal rate.
The Standing Deposit Facility is a liquidity absorption tool that allows the central bank to accept deposits from commercial banks on an overnight basis. A key characteristic of the SDF is that it is uncollateralised, meaning the central bank does not provide government securities in exchange for the funds. This distinguishes it from

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the idea that a target should be immune to direct intervention is incorrect; in fact, the central bank must be able to influence it effectively to achieve goals.

68. (C) Assertion (A) is true, but Reason (R) is false.
According to the real balance effect, if the price level rises while the nominal money supply stays constant, the real value of that money decreases. This reduction in purchasing power makes the public feel less wealthy. However, the reason provided is incorrect because 'outside' money, like currency, is actually a liability of the central bank or government, not an asset issued by the public.

69. (A) Increase the nominal interest rate by more than 2 percentage points to raise the real interest rate.
The Taylor Principle states that when inflation rises, the central bank should increase the nominal interest rate by more than the increase in inflation. This ensures that the real interest rate rises, which helps cool the economy and bring inflation back toward the target. In this scenario, a rise of 2 percentage points in inflation requires a nominal rate hike exceeding 2 percentage points.

70. (D) I, II, III, IV, and V
The Reserve Bank of India maintains an inclusive consultative process for formulating its monetary policy. This involves engaging with various stakeholders, including the Indian Banks' Association, market groups like FIMMDA and FEDAI, and credit rating agencies. Additionally, industry associations such as ASSOCHAM and FIEO, along with professional forecasters and media analysts, provide valuable feedback and data that inform the policy-making process.

71. (A) The national government, which may result in a higher gross fiscal deficit.
The Market Stabilisation Scheme involves the issuance of government bonds to absorb excess liquidity caused by large capital inflows. While the central bank manages the operations, the interest payments on these bonds represent a fiscal cost. This cost is borne by the national government, which can lead to an increase in the gross fiscal deficit. This highlights the interaction between monetary operations and the government's fiscal health.

72. (C) I, II, and III only
If the Reserve Bank fails to meet its inflation target, it must submit a report to the Central Government. This report must detail the reasons for the failure, the remedial actions the bank proposes to take, and an estimated timeline for returning inflation to the target range. Requesting a target revision from the IMF is not a requirement under the domestic Monetary Policy Framework Agreement.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In emerging economies, the effectiveness of the money supply channel often weakens as financial systems mature. This is primarily because rapid financial innovations and the introduction of new products alter the stability of money demand. As the relationship between the money supply and economic activity becomes less predictable, central banks may find it more difficult to use money aggregates as reliable policy anchors.

74. (D) Assertion (A) is false, but Reason (R) is true.
Central banks do not generally prefer a complete lack of rules; instead, many value rule-based frameworks for the transparency and credibility they provide. Relying on systematic rules helps prevent the dynamic inconsistency problem, where short-term goals might otherwise compromise long-term price stability. While discretion is useful during crises, having a clear policy rule helps anchor public expectations and ensures a more stable macroeconomic environment.

75. (D) Alpha Bank's reserves with the central bank increase, enhancing its ability to extend credit.
When the central bank purchases government securities directly from a commercial bank, it pays for them by crediting the bank's reserve account. This operation results in an immediate increase in the commercial bank's reserves held with the central authority. With higher reserves, the bank's liquidity position is strengthened, thereby enhancing its capacity to extend more credit to the public and stimulate economic activity.

76. (C) I, II, and III only
Discretionary monetary policy is advocated because it allows central banks to handle

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42. (C) Mainly because rapid financial innovations altered the stable relationship between money and interest.
Before 1973, money demand functions in the United States were relatively stable. However, the subsequent emergence of rapid financial innovations and new banking products altered the way individuals and firms held money. These changes disrupted the traditional relationship between money supply and interest rates, making it difficult for the central bank to predict money demand and use it as a reliable target.

43. (B) Price Stability — Minimizing the variability of output while aiming for low and stable inflation.
Price stability is a primary objective of monetary policy and is achieved by keeping inflation low and predictable. Modern central banking recognizes that this goal is best pursued while also attempting to minimize the variability of economic output. This dual focus ensures that the policy supports sustainable growth and prevents sharp fluctuations that could disrupt long-term planning and investment within the financial system.

44. (B) P-2, Q-4, R-3, S-1
Milton Friedman resurrected the quantity theory of money, advocating for stable money growth. John Taylor developed the rule for adjusting nominal interest rates based on inflation and output. Patinkin utilized the real-balance effect to explain how price changes lead to full employment. Keynes highlighted the interest rate mechanism, focusing on how money supply changes affect investment through the cost of borrowing.

45. (D) I, II, and III
The Liquidity Adjustment Facility is the primary tool for managing short-term liquidity in India. it encompasses various operations, including overnight and term repos and reverse repos for active management. Additionally, the Standing Deposit Facility and the Marginal Standing Facility serve as the floor and ceiling of the interest rate corridor, respectively, providing a comprehensive framework for stabilizing market interest rates.

46. (B) It facilitates investor planning and creates a conducive environment for growth-oriented investments.
A stable pricing environment is essential for long-term economic growth because it reduces uncertainty for both consumers and businesses. When inflation is low and predictable, investors can plan their projects with greater confidence regarding future costs and returns. This conducive environment encourages capital formation and efficient resource allocation, which are fundamental drivers of sustained productivity and development in any modern economy.

47. (C) Both I and II
The real balance effect mechanism relies on the relationship between money supply and the price level. The term M/P represents the real value of outside money held by the public. If this value increases, either through more money or lower prices, households experience an increase in their real wealth. This perceived wealth boost induces them to spend more, thereby stimulating aggregate demand.

48. (A) P-3, Q-4, R-1, S-2
The Bank Rate is the rediscount rate for commercial bank bills. Open market operations manage the volume of high-powered money by buying or selling government securities. The Cash Reserve Ratio influences the lending capacity of banks by impounding a portion of their deposits. Selective credit controls target specific sectors through margin requirements and exposure limits to manage credit quality and direction.

49. (A) Outside lag — Time required to recognize an economic problem before acting.
The outside lag is the period between the implementation of a policy measure and its final impact on economic goals like inflation or output. It represents the transmission time through the financial system. In contrast, the time required to recognize an economic problem is known as the recognition lag, which is a component of the inside lag, not the outside lag.

50. (A) P-4, Q-3, R-1, S-2
Section 42 of the RBI Act governs the maintenance of the Cash Reserve Ratio by banks. Section 24 of the Banking Regulation Act stipulates the Statutory Liquidity Ratio requirements.

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inflationary pressures from building up as production exceeds its sustainable long-term capacity.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
For the exchange rate channel to be effective, capital must be mobile across international borders. When a central bank changes interest rates, it creates a differential compared to other countries. This attracts or repels capital as investors seek better returns, which in turn influences the value of the domestic currency. These currency fluctuations then impact the economy through changes in net exports and inflation.

86. (A) I, II, and III only
The interest rate channel begins when the central bank changes its policy rate, influencing market interest rates. This shift alters the cost of borrowing, which impacts investment spending and aggregate demand. Eventually, these changes in economic activity and output affect the overall price level. Direct and exclusive changes in statutory reserve requirements are not part of the standard interest rate transmission sequence.

87. (B) The central bank does not pay interest on any CRR balances maintained by banks.
The Cash Reserve Ratio is a regulatory tool used to impound liquidity, and the central bank generally does not pay interest on these balances. This applies to both the mandatory required amount and any excess balances that a bank might choose to maintain. The unremunerated nature of these reserves encourages banks to manage their liquidity efficiently and reflects the quantitative nature of the CRR tool.

88. (A) I, II, III, and IV only
The Monetary Policy Report includes a detailed analysis of inflation dynamics, future projections for growth and inflation, and an assessment of the overall economy. It also reviews the operating procedures of monetary policy. While the voting records of MPC members are made public, they are published in the meeting minutes exactly fourteen days after the meeting, rather than being a specific component of the MPR.

89. (B) A "tight" monetary policy featuring a relatively high interest rate.
Based on the Taylor Rule, when inflation is above the target and there is a positive output gap, the central bank should adopt a "tight" monetary policy. This involves setting a relatively high interest rate to reduce spending and bring inflation down. By increasing the cost of borrowing, the bank aims to align economic activity with the target inflation rate and the economy's potential output level.

90. (D) Both Assertion (A) and Reason (R) are false.
An open market purchase of government securities by the central bank actually increases high-powered money, as the bank injects liquidity into the system by paying for the securities. The reason provided is also false because a purchase credits the reserves of commercial banks, increasing their lending capacity, rather than absorbing liquidity. Only an open market sale would absorb liquidity and reduce bank reserves.

91. (B) Minimum four times a year; Quorum is four members.
The statutory framework for the Monetary Policy Committee in India mandates that it must meet at least four times during a financial year. To ensure that decisions are made with sufficient deliberation and representation, the legal quorum for these meetings is set at four members. This requirement ensures that a significant portion of the six-member committee is present for all critical rate-setting decisions.

92. (C) Domestic deposits lose attractiveness, capital flows out, the currency depreciates, and net exports rise.
When a central bank reduces the domestic interest rate, domestic deposits become less attractive compared to foreign ones. This leads to capital outflows as investors seek higher returns abroad. As a result, the domestic currency tends to depreciate. A weaker currency makes exports cheaper and imports more expensive, which typically leads to an increase in net exports and stimulates the domestic economy.

93. (D) It increases liquidity, raising equity prices and household wealth, which boosts consumption.
A policy rate cut transmits through the wealth effect channel by increasing liquidity in the

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59. (B) Only II
Monetary policy execution follows a directional flow where instruments are used to influence operational indicators. These indicators, in turn, affect the intermediate targets, such as the money supply or bank credit. Finally, the changes in these targets impact the ultimate goals of price stability and growth. The idea that instruments directly alter target variables before indicators is incorrect in the standard operational framework.

60. (A) P-2, Q-4, R-3, S-1
In the Taylor Rule, R represents the target short-term nominal interest rate. The variable r* is the equilibrium real interest rate. The term y* stands for the economy's potential output, which is the level of production achieved at full employment. Finally, p represents the actual rate of inflation, which is often measured by a broad indicator like the GDP deflator or CPI.

61. (A) I, II, III, and IV only
The Statutory Liquidity Ratio serves multiple purposes, including ensuring bank discipline, protecting depositors, and providing a liquid asset buffer. While it was initially a liquidity measure, it later became a tool for government resource mobilization. The minimum requirement was raised to 25 per cent in 1962. However, the RBI does not pay a 10% premium on excess SLR holdings, making the final statement incorrect.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
While transparency is generally beneficial, absolute openness in every policy area can sometimes be counterproductive. Reports and projections released by a central bank might be misinterpreted by various market segments, which can lead to unnecessary panic or price distortions. Therefore, maintaining some degree of opaqueness in sensitive operational details allows the central authority to manage expectations more effectively and ensure market stability.

63. (B) I, III, and IV only
Open market purchases of government securities by a central bank inject liquidity, thereby increasing high-powered money. These operations can be tailored to different maturities to address specific liquidity needs. Furthermore, repurchase agreements are essentially short-term open market operations. However, the central bank does not typically act as an agent to sell new government loans directly on 'tap' as a standard OMO procedure.

64. (C) Unencumbered Government and other approved securities.
To meet the Statutory Liquidity Ratio requirement, banks must hold a specific portion of their deposits in liquid assets. The primary and most common form of these assets is unencumbered government and other approved securities. These instruments are considered highly safe and liquid, fulfilling the regulatory objective of ensuring that banks maintain a buffer of high-quality assets to protect depositors and maintain financial stability.

65. (D) Assertion (A) is false, but Reason (R) is true.
The belief that price stability and economic growth are fundamentally opposed is incorrect. In fact, price stability is a prerequisite for sustainable growth. When inflation is low and stable, it reduces uncertainty, allowing investors to plan and execute long-term projects with greater efficiency. This stability creates an environment where resources are allocated effectively, ultimately fostering higher and more consistent economic expansion over time.

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66. (A) It reduces export competitiveness, causing potential imbalances in the country's balance of payments.
In emerging market economies, a rapid and unmanaged appreciation of the domestic currency is often a concern for central banks. A stronger currency makes domestic goods more expensive for foreign buyers, which can lead to a significant decline in export volumes. This reduction in competitiveness may cause imbalances in the country's balance of payments, potentially hurting domestic industries and overall economic stability.

67. (A) I, II, and III only
A suitable target variable for monetary policy must be reliably estimable and rapidly affected by the central bank's instruments. It should also have minimal interference from non-policy factors and be observable with little time lag. However,

CHAPTER 08
Credit Policy

NODIA

Oct/Nov 2015

1. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): In a developing country context, a distinct credit policy framework is put in place alongside monetary policy.
Reason (R): It is necessary to ensure appropriate allocation of credit across a wider spectrum of economic activities taking note of sectoral, regional, and equity considerations.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

2. Identify the incorrect pair regarding the distinctions necessary for allocating credit within trade and industry.
(A) Manufacturing industry: Small scale industries vs. large-scale industries.
(B) Trade sector: Internal trade vs. foreign trade.
(C) Foreign trade: Priority sectors vs. rural distribution.
(D) Internal trade: Wholesale trade vs. retail trade.

Oct/Nov 2022

3. Which of the following best explains the distinction between the scope of monetary policy and credit policy?
(A) Monetary policy determines sectoral credit flows, while credit policy manages macro dimensions of money supply.
(B) Monetary policy focuses solely on the cost of credit, whereas credit policy is restricted to maintaining statutory liquidity.
(C) Monetary policy manages macro money supply; credit policy manages the impact of those changes on the economy.
(D) Monetary policy manages non-institutional sources of funds, while credit policy oversees purely institutional banking sources.

May/June 2017

4. Read the following statements and answer the question that follows:
I. The allocation of credit to the manufacturing industry is completely uniform regardless of the scale of the industries.
II. Distinctions are made between exports and imports while allocating credit for foreign trade.
III. Selective credit controls are applied on selected commodities.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2011

5. Read the following statements and answer the question that follows:
I. The asset-liability distinction between money and credit underlies much of monetary theorizing.
II. The public holds money as a liability in its wealth portfolio.
III. A stable demand for money implies that an autonomous change in money supply alters either money income or interest rates.
IV. The transmission mechanism crucially depends on the government's demand for credit.
Which of the above statement(s) is/are correct?
(A) I and III
(B) II and IV
(C) I, II, and III
(D) I, III, and IV

sector lending quotas.

May/June 2015

58. Identify the incorrect statement regarding nominal and real credit.
(A) In high inflation, nominal credit remains identical to real credit.
(B) The distinction between these two measures provides a measure of change in the price level.
(C) The monetary authorities control nominal credit and not real credit.
(D) The price neutrality occurs only when the real credit level also moves up.

Oct/Nov 2010

59. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): Inter-borrower allocation is the final stage where credit flows to specific firms or individuals.
Reason (R): This allocation is determined exclusively by the statutory industrial policy resolution without considering borrower risk or collateral.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

60. Why is close coordination between the Reserve Bank and the planning authority essential during resources planning exercises?
(A) To ensure commercial banks do not finance agricultural outputs.
(B) Because real sector growth requirements must match the credit plan.
(C) To substitute physical planning entirely with financial forecasting.
(D) Because the central bank determines industrial output targets.

Oct/Nov 2018

61. Arrange the following regulatory actions regarding margin requirements in their correct chronological sequence:
1. Margins on bank advances against oil seeds and vegetable oils raised by 15 percentage points across-the-board (first instance).
2. Minimum margins on all bank advances against wheat reduced by 15 percentage points.
3. Margins on bank advances against oil seeds and vegetable oils raised by 15 percentage points (second instance).
4. Minimum margin requirement for loans against shares and debentures reduced from 75 per cent to 50 per cent.

(A) 2, 1, 3, 4
(B) 1, 3, 2, 4
(C) 2, 1, 4, 3
(D) 1, 2, 3, 4

May/June 2012

62. Read the following statements and answer the question that follows:
I. In 1994, lending interest rates were deregulated and banks were prescribed to disclose their PLRs.
II. In 2003, PLR was converted into the Benchmark Prime Lending Rate (BPLR).
III. The dominance of sub-BPLR lending strengthened the effectiveness of the BPLR system.
IV. BPLR was used as an internal reference rate for advances sanctioned up to June 30, 2010.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, II, and IV
(D) I, III, and IV

Oct/Nov 2025

63. Quantitative Credit Control Measures typically include all of the following EXCEPT:
(A) Higher margin requirements for advances against sensitive commodities.
(B) Bank Rate
(C) Open Market Operations
(D) Statutory Liquidity Ratio

May/June 2006

64. Which of the following statements regarding the experience with the MCLR system is incorrect?
(A) The transmission has remained uneven across the sectors of the economy.
(B) The transmission has been uneven between deposit and lending rates.

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Oct/Nov 2019

13. Identify the correct pair representing the broad entailment of credit planning within the commercial sector.

(A) Macro allocation: Directing credit to sectors like agriculture and manufacturing.
(B) Inter-industry allocation: Categorizing bank credit by the borrower's net worth.
(C) Fiscal planning: Managing the broad distribution of foreign exchange reserves.
(D) Priority sector classification: Determining the bank's statutory liquidity ratio.

May/June 2021

14. Which of the following most accurately describes the relationship between credit policy and monetary policy?

(A) Credit policy acts as an independent substitute for fiscal policy.
(B) Monetary policy is formulated strictly within the credit policy established by banks.
(C) Credit policy is an adjunct to monetary policy, which determines total credit volume.
(D) There is no structural relationship between the two policies in developing economies.

Oct/Nov 2007

15. Given the total quantum of credit available for the commercial sector, the ambit of credit planning broadly entails all of the following EXCEPT:

(A) Allocation of credit among individual borrowers classified by economic status.
(B) Allocation of credit within the commercial sector by main areas of activity like agriculture and manufacturing.
(C) Developing rules or guidelines for the distribution of credit.
(D) Determining the statutory personal income tax rates for retail borrowers.

May/June 2010

16. What dual objectives does the Reserve Bank of India simultaneously optimize while framing credit policies?

(A) Price stability and promotion of economic growth
(B) Employment generation and fiscal deficit reduction
(C) Exchange rate parity and trade balance
(D) Import substitution and foreign direct investment

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Oct/Nov 2023

17. Read the following scenario and answer the question that follows:

The central bank is formulating its monetary policy for the upcoming financial year. The government announces a massively expanded market borrowing program. What immediate analytical step must the central bank perform to manage commercial credit allocation?

(A) Calculate residual credit for the commercial sector after accounting for government needs.
(B) Eliminate all credit allocations to the commercial sector to exclusively fund the government.
(C) Automatically reduce the interest rates for all individual retail borrowers.
(D) Deregister non-banking financial companies to reduce deposit mobilization.

May/June 2015

18. Read the following scenario and answer the question that follows:

A commercial bank is restructuring its lending portfolio. It intends to drastically reduce lending to the agricultural sector to maximize profitability through high-yield speculative corporate loans. In the context of national economic planning, how does the overarching credit policy address this situation?

(A) By designing credit allocation patterns that align with national socio-economic goals.
(B) By allowing banks complete autonomy to direct funds toward the highest yield sectors.
(C) By strictly converting all commercial banks into specialized regional lending agencies.
(D) By ceasing all commercial lending and routing all bank funds to the central government.

Oct/Nov 2010

19. Consider the following statements regarding the allocation of credit:

I. The classification between 'priority sectors' and others cuts across industrial and trade classifications.
II. Achieving an appropriate allocation of credit requires balancing regional distribution between rural and urban sectors.

Which of the above statement(s) is/are correct?

fossil fuels. It designs policies to ensure credit flows preferentially to these selected industries. To support this, the central bank goes beyond mere policy directives. What additional effort does it make for the implementation of these objectives?

(A) It permanently nationalizes all conventional fossil fuel industries.
(B) It forces retail borrowers to exclusively purchase renewable energy products.
(C) It makes efforts in building the necessary institutional structure.
(D) It completely halts the government's market borrowing programme.

May/June 2021

46. What is the definition of "Real credit"?

(A) The credit amount adjusted to match international exchange rate fluctuations.
(B) The credit measured based on a given base year's price level.
(C) The physical transfer of gold and silver in exchange for loan agreements.
(D) The actual unrecoverable debt written off by commercial banks.

Oct/Nov 2005

47. Read the following scenario and answer the question that follows:

A bank manager is reviewing a loan application from a medium-scale manufacturing firm. The manager assesses the collateral provided, the exact purpose of the loan, and the historical repayment track record to gauge default risk. This review process primarily reflects which stage of credit allocation?

(A) Allocation to Government
(B) Inter-Borrower Allocation
(C) Inter-Industry Allocation
(D) Macro-monetary Budgeting

May/June 2013

48. Read the following scenario and answer the question that follows:

A central bank successfully implements policies ensuring that an expansion in nominal credit perfectly matches an increase in production, without causing inflation. According to the relationship between nominal and real credit, this situation implies that:

(A) The real credit level has remained stagnant.
(B) Price neutrality occurs because the real credit level also moves up.
(C) The asset preferences of the public have shifted entirely to physical cash.
(D) The deposit mobilization efforts of banks have completely ceased.

Oct/Nov 2020

49. Read the following statements and answer the question that follows:

I. Ensuring that credit flows are directed for specific purposes like the composition of output.
II. Discouraging the production of any new industrial goods outside the service sector.
III. Encouraging the production and growth of selected industries.

Which of the above statement(s) represents the underlying objectives of inter-industrial allocation of credit?

(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2025

50. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:

Assertion (A): The government can borrow funds at a rate of interest lower than what the free market will determine.

Reason (R): A statutory requirement is imposed on banks and financial institutions to invest a minimum proportion of their liabilities in government and other approved securities.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

51. Which of the following statements about the central bank's response to excess market borrowing by the government is incorrect?

(A) The central bank can absorb the excess borrowing.
(B) The central bank can raise the SLR level to force banks to absorb the borrowing.
(C) Raising the SLR level crowds out credit

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I. The volume of the market borrowing programme.
II. The likely foreign exchange flows.
III. The efficacy of banks in mobilizing deposits.
IV. The extent to which banks can contribute to the market borrowing programme.
V. The international sovereign rating of non-banking financial companies.

Which of the above factor(s) is/are taken into account when formulating monetary policy?
(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, IV, and V

May/June 2020

26. Which of the following statements accurately reflects the dimensions of credit policy in operation?
(A) Credit allocation mechanisms are solely determined by market forces without statutory intervention.
(B) Equity considerations have no bearing on the formulation of credit allocation mechanisms.
(C) Non-institutional sources are strictly excluded from the overall scope of credit policy analysis.
(D) Dimensions include quantum, sources, and nature of credit, alongside specific allocation mechanisms.

Oct/Nov 2013

27. Which of the following statements correctly depicts the relationship between the credit budget and the monetary budget?
(A) The credit budget emerges as an offshoot of the monetary budget.
(B) The monetary budget is derived exclusively as a minor component of the credit budget.
(C) Both budgets operate independently with no structural linkage.
(D) The credit budget dictates the absolute limits of the monetary budget.

May/June 2007

28. The Reserve Bank ensures that credit is extended to all productive sectors. Under no circumstances should such credit be diverted to which of the following?
(A) Speculative activities
(B) Agricultural operations
(C) Manufacturing industries
(D) Internal wholesale trade

Oct/Nov 2024

29. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): In the Indian context, credit planning is solely a mathematical problem of determining the socially optimal time path of total bank credit.
Reason (R): Credit planning fundamentally requires developing the necessary infrastructure and distribution channels for the desired allocation in practice.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

30. How is the term "Credit Policy" formally described in the context of central banking operations?
(A) The framework used exclusively for the management of the central government's direct tax revenues.
(B) The legal procedure for recovering non-performing assets from defaulting corporate borrowers.
(C) The international protocol for settling cross-border trade transactions.
(D) The central bank policy regarding changes in the cost and sectoral availability of bank credit.

NODIA

Oct/Nov 2006

31. Read the following scenario and answer the question that follows:
An economy experiences a stable macroeconomic environment with virtually zero inflation over five years. A financial analyst is evaluating the growth in bank credit during this period. What conclusion can be logically drawn regarding nominal and real credit measures in this specific scenario?
(A) Nominal credit will severely outpace real credit.

(B) Real credit will contract while nominal credit expands exponentially.
(C) These measures may not differ materially due to relative price stability.
(D) The nominal credit figures will become irrelevant for monetary authorities.

May/June 2018

32. Read the following scenario and answer the question that follows:
To fund a sudden infrastructural stimulus, the government issues bonds exceeding the planned market borrowing limits. The central bank decides to hike the Statutory Liquidity Ratio (SLR) to ensure these bonds are absorbed. What is the most likely macroeconomic consequence of this central bank action?
(A) The commercial sector will experience an unprecedented surge in available credit.
(B) Credit to the commercial sector will be crowded out, impacting growth.
(C) The action will lead to severe hyperinflation due to central bank monetization.
(D) The foreign exchange reserves will deplete immediately to cover the borrowing.

Oct/Nov 2012

33. In periods of high inflation, how do nominal credit and real credit primarily interact?
(A) Nominal credit and real credit maintain absolute parity regardless of price shifts.
(B) Nominal credit would be much higher than real credit.
(C) The distinction between the two measures ceases to exist.
(D) Nominal credit would be significantly lower than real credit.

May/June 2022

34. Consider the following statements regarding criteria for credit allocation:
I. The choice of policies regarding credit allocation must keep in mind socio-economic implications.
II. Effective realization of goals depends on the fulfilment of certain pre-requisites and complementary conditions.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2008

35. Read the following statements regarding variables used in the theoretical model for the credit allocation plan and answer the question that follows:
I. B_t* represents the total bank credit for the commercial sector planned for year t.
II. X_it represents the planned output of the ith sector for year t.
III. I_it* represents the planned investment expenditure of the ith sector for year t.
IV. B_i represents the bank credit-investment coefficient for the ith sector.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

May/June 2014

36. Identify the correctly matched pair regarding credit allocation mechanisms.
(A) Sub-plans: Investment and production frameworks drawn up for each sector in a full Plan.
(B) B_t*: Total planned output of the ith sector.
(C) Provident funds: Institutions exempt from investing in government securities.
(D) Real credit allocation: Administered entirely by market forces without central bank involvement.

Oct/Nov 2021

37. What is the definition of "Nominal credit"?
(A) The volume of credit measured at current prices.
(B) The volume of credit measured at a given base year's price level.
(C) The credit explicitly reserved solely for the government sector.
(D) The total amount of foreign currency loans issued by domestic banks.

May/June 2016

38. Read the following scenario and answer the question that follows:
The government announces a large market borrowing program. A commercial bank notices that a specific percentage of its total liabilities must be diverted to purchase government securities, restricting its ability to lend to corporate clients. Under which policy instrument does the central

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bank operate this specific requirement?
(A) Cash Reserve Ratio (CRR)
(B) Open Market Operations (OMO)
(C) Bank Rate
(D) Statutory Liquidity Ratio (SLR)

Oct/Nov 2009

39. The flow of credit to firms and individuals relies on several considerations at the inter-borrower level. These considerations generally weigh all of the following EXCEPT:
(A) The interest rate and the amount of credit disbursal.
(B) The purpose for which credit is given and security offered.
(C) The risk of default.
(D) The international sovereign rating of the domestic currency.

May/June 2023

40. The ultimate volume of credit disbursed by banks is fundamentally determined by which of the following?
(A) The international credit ratings of the borrowing corporate entities.
(B) The volume of high-denomination currency printed by the central bank.
(C) The statutory tax rates applicable to wholesale trade.
(D) Public asset preferences and the banks' deposit mobilization efforts.

Oct/Nov 2017

41. In the theoretical credit allocation model, what does the coefficient C_i represent?
(A) Bank credit-Output coefficient for the ith sector
(B) Bank credit-Investment coefficient for the ith sector
(C) The total planned output of the ith sector
(D) The statutory liquidity ratio for the ith bank

May/June 2011

42. Consider the following statements regarding deposit mobilization and credit volume:
I. The public holds deposits as part of their asset portfolio.
II. The volume of credit is independent of the asset preferences of the public.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2022

43. Read the following statements and answer the question that follows:
I. The central bank can choose to absorb the excess borrowing.
II. The central bank can choose to raise the SLR level.
III. Absorbing the excess borrowing by the central bank is inflationary.
IV. Raising the SLR level would crowd out credit to the commercial sector.
V. Raising the SLR level accelerates commercial sector growth exponentially.
Which of the above statement(s) correctly identifies the central bank's options and their impacts when government borrowing exceeds absorption capacity?
(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, II, IV, and V
(D) I, III, IV, and V

NODIA

May/June 2009

44. Match the symbols from the theoretical credit allocation model in List I with their descriptions in List II:
List I: (Symbols)
P. X_{it}
Q. I_{it}^*
R. B_i
S. C_i
List II: (Descriptions)
1. Bank credit-Investment coefficient for the ith sector
2. Planned output of the ith sector for year t
3. Bank credit-Output coefficient for the ith sector
4. Planned investment expenditure of the ith sector for year t
(A) P-2, Q-4, R-3, S-1
(B) P-1, Q-3, R-4, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2011

45. Read the following scenario and answer the question that follows:
The central bank wishes to boost the growth of renewable energy industries over conventional

May/June 2024

6. Read the following scenario and answer the question that follows:
A newly appointed central bank governor proposes a comprehensive set of mathematical guidelines for optimal credit allocation. However, previous attempts failed to translate into ground-level impact. To ensure practical success in credit planning, what parallel action is most critical?
(A) Exclusively focusing on reducing the cash reserve ratio.
(B) Developing the necessary infrastructure and distribution channels.
(C) Shifting all lending exclusively to large-scale manufacturing.
(D) Replacing all physical branch networks with international correspondent banks.

Oct/Nov 2005

7. How is credit policy primarily defined in the context of macroeconomic management?
(A) The regulatory frameworks managing specific levels of international reserves.
(B) A sub-theme of monetary policy focusing on growth, investment, and money supply.
(C) Overarching structures for managing central government fiscal borrowing programs.
(D) Independent policies separate from monetary policy aimed strictly at limiting inflation.

May/June 2013

8. Which of the following factors is explicitly taken into account during monetary policy formulation to determine the desirable level of credit expansion?
(A) The exact number of automated teller machines deployed nationwide.
(B) The volume of the market borrowing programme.
(C) The individual dividend declaration dates of private corporations.
(D) The demographic shift in consumer brand preferences.

Oct/Nov 2020

9. Upon what does the total quantum of credit that has to be distributed primarily depend?
(A) The aggregate volume of non-performing assets.
(B) The monetary budget, emerging as its offshoot.
(C) The specific regional demands of the wholesale trade sector.
(D) The daily fluctuations in the international stock market.

May/June 2025

10. Read the following statements and answer the question that follows:
I. The Reserve Bank regulates the cost of credit.
II. The Reserve Bank regulates the quantity of credit.
III. The Reserve Bank refrains from regulating the purpose for which credit is disbursed.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2014

11. Read the following scenario and answer the question that follows:
A commercial bank's internal economists are trying to forecast the total quantum of credit they can disburse in the next quarter. They review the central bank's recently published monetary budget. Why is the monetary budget highly relevant for their forecast?
(A) It provides the exact list of individual retail borrowers approved for loans.
(B) It outlines the penal interest rates for defaulting foreign trade counterparties.
(C) It replaces the need for the bank to mobilize deposits from the public.
(D) The quantum of total credit that has to be distributed depends on the monetary budget.

May/June 2008

12. Which of the following statements regarding the differences between monetary and credit policies is incorrect?
(A) The public holds money as an asset in its wealth portfolio.
(B) For the government and the central bank, money is considered a liability.
(C) Bank credit acts as a liability for banks but an asset for the public and government.
(D) An autonomous change in the supply of money leads to a change in the level of money income or interest rates.

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available to the commercial sector.
(D) Direct central bank absorption aggressively reduces inflation.

May/June 2008

52. Read the following statements and answer the question that follows:
I. By varying the reserve money, monetary authorities can vary the creation of additional nominal credit.
II. Central banks may choose to exercise restraint lest the nominal credit level pushes much higher than the real credit level.
III. An increase in nominal credit substantially above real credit implies an implicit fall in the general price level.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2019

53. The credit allocation mechanism in India follows closely from which of the following?
(A) The direct regulatory dictates of international rating agencies.
(B) The quarterly financial reports of top-tier commercial banks.
(C) The physical planning undertaken under national Five-Year Plans.
(D) The daily trading volumes on the national stock exchange.

May/June 2021

54. Match the level or type of credit allocation in List I with its corresponding characteristic in List II:
List I: (Type of Allocation)
P. Allocation to Government
Q. Inter-Industry Allocation
R. Inter-Borrower Allocation
S. Physical Planning mechanism
List II: (Characteristic)
1. Based on Five-Year Plans guiding investment sub-plans
2. Operates through SLR requirements on financial institutions
3. Evaluates default risk and collateral at the firm level
4. Directs flows to ensure composition of output across selected sectors
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-1, Q-3, R-2, S-4
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2007

55. Which of the following statements is correct regarding the absorption of the government's market borrowing program?
(A) It depends on banks' SLR requirements and other financial institutions' capacity.
(B) It depends solely on the volume of foreign direct investments received during the fiscal year.
(C) It is strictly limited by the amount of physical gold held by the central bank.
(D) It is entirely absorbed by individual retail investors without institutional participation.

May/June 2010

56. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): Monetary authorities exercise control over real credit rather than nominal credit.
Reason (R): The disbursement of credit by banks basically depends on their deposit mobilization efforts.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

57. When the government's market borrowing level strictly exceeds the level warranted by banks' SLR capacities and institutional contributions, which are the two primary options open to the central bank?
(A) Absorb the excess borrowing or raise the SLR level.
(B) Increase foreign imports or reduce domestic taxes.
(C) Liquidate foreign exchange reserves or declare a moratorium on commercial lending.
(D) Decrease the Bank Rate or increase priority

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(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

20. Read the following scenario and answer the question that follows:
A trading firm approaches a bank for a massive loan to hoard essential commodities, anticipating a sudden price rise due to market shortages. The bank refuses the loan citing specific regulatory directives. Which underlying principle of the central bank's credit regulation justifies the bank's refusal?
(A) Ensuring that credit is not diverted to unproductive or speculative activities.
(B) Mandating that all wholesale trade must be financed by non-institutional sources.
(C) Ensuring that commercial sector lending cannot exceed government sector lending.
(D) Promoting the autonomous expansion of money supply without sectoral restrictions.

Oct/Nov 2018

21. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): The central bank arrives at a broad indication about the distribution of credit between the Government and the commercial sector.
Reason (R): This distribution exercise is based on parameters such as fiscal borrowing programmes, likely foreign exchange flows, and banks' deposit mobilization efficacy.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

22. Consider the following statements regarding the administration of monetary and credit policies:
I. The broad policy stance of the central bank simultaneously determines the supply of money and the availability of credit.
II. In a developing economy, determining the overall credit availability is sufficient without needing specific sectoral allocation.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

NODIA

Oct/Nov 2025

23. Match the concepts in List I with their corresponding descriptions in List II:
List I: (Concepts)
P. Monetary Policy
Q. Credit Policy
R. Transmission Mechanism
S. Institutional Source
List II: (Descriptions)
1. Process where a change in money supply induces a change in commodity market expenditure
2. Banks providing loans to commercial sectors
3. Concerned with macro dimensions of changes in money supply
4. Relates to changes in cost and availability of bank advances to economy sectors
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-1, R-4, S-2

May/June 2006

24. Match the basis of credit allocation in List I with the corresponding sector or category in List II:
List I: (Basis of Credit Allocation)
P. Industrial classification
Q. Trade classification
R. Economic status
S. Regional distribution
List II: (Sector or Category)
1. Internal vs Foreign (Exports and Imports)
2. Rural and Urban sectors
3. Individual borrowers
4. Manufacturing industry
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-2, R-4, S-1
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2016

25. Read the following statements and answer the question that follows:

(C) The MCLR system successfully eliminated all transmission lags and ensured perfect interest rate parity.
(D) The spread between the lending rate and the 1-year MCLR has shown large variations.

Oct/Nov 2016

65. What is the fundamental limitation of selective credit controls?
(A) They are supplemental tools primarily intended to control essential commodity prices.
(B) They completely fail to address any speculative activities in the market.
(C) They cause immediate and uncontrollable hyperinflation when implemented.
(D) They require the explicit approval of international financial institutions prior to deployment.

May/June 2020

66. Read the following statements regarding the conclusions of the Study Group constituted in August 2017 and answer the question that follows:
I. Internal benchmarks like base rate/MCLR have not delivered effective transmission of monetary policy.
II. Arbitrariness in calculating base rate/MCLR undermined the integrity of the interest rate setting process.
III. The base rate and MCLR regimes are in perfect sync with global practices on pricing bank loans.
IV. The Group recommended switching over to an external benchmark.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2013

67. What is the primary conceptual difference between Quantitative and Selective Credit Controls?
(A) Quantitative controls regulate advances against specific sensitive commodities, while selective controls manage the statutory liquidity ratio.
(B) Quantitative controls are used exclusively during deflation, whereas selective controls are applied only during hyperinflation.
(C) Quantitative tools manage money supply; selective tools manage allocation and speculation.
(D) Quantitative controls only impact foreign exchange reserves, while selective controls manage domestic currency printing.

May/June 2007

68. In the context of the Indian financial system being "bank centric," what is the primary concern for the Reserve Bank regarding monetary impulses?
(A) The inability to print sufficient physical currency notes.
(B) The transmission from the policy rate to banks' lending rates.
(C) The reliance on non-banking financial companies for all agricultural loans.
(D) The over-capitalization of regional rural banks.

Oct/Nov 2024

69. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): The Base Rate System replaced the BPLR system to improve transparency, but it still rendered the assessment of monetary transmission difficult.
Reason (R): The flexibility accorded to banks to determine the cost of funds as average, marginal, or blended cost caused opacity in the determination of lending rates.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

70. Read the following scenario and answer the question that follows:
After a season of severe drought, the central bank had imposed high margin requirements on advances against paddy and rice to prevent speculative hoarding. The following year witnessed a bumper harvest, and the supply situation became exceptionally easy. According

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May/June 2008

94. Match the abbreviations in List I with their corresponding expansions in List II:

List I: (Abbreviation)

P. RE

Q. LSP

R. DLA

S. NBFC

List II: (Expansion)

1. Lending Service Provider
2. Non-Banking Financial Company
3. Regulated Entity
4. Digital Lending App

(A) P-3, Q-1, R-4, S-2

(B) P-1, Q-2, R-3, S-4

(C) P-4, Q-3, R-2, S-1

(D) P-2, Q-4, R-1, S-3

Oct/Nov 2019

95. The September 02, 2022, guidelines on Digital Lending were issued to a specific set of financial institutions. Which of the following is NOT explicitly mentioned as a recipient entity?

(A) Unregulated Peer-to-Peer Foreign Lenders

(B) State Co-operative Banks

(C) Non-Banking Financial Companies (including Housing Finance Companies)

(D) Commercial Banks

May/June 2021

96. Read the following scenario and answer the question that follows:

A Regulated Entity (RE) outsources parts of its digital lending process to a Lending Service Provider (LSP). A customer files a complaint regarding a breach of guidelines by the LSP's Digital Lending App (DLA). The RE claims it is not responsible since the process was outsourced. Based on regulatory guidelines, is the RE's claim valid?

(A) Yes, because outsourcing legally transfers all obligations to the LSP.

(B) No; outsourcing does not diminish RE obligations and compliance must be ensured.

(C) Yes, provided the RE notified the central bank prior to outsourcing.

(D) No, but only if the LSP operates outside the sovereign borders of India.

Oct/Nov 2007

97. Which of the following statements accurately reflects the relationship between Regulated Entities (REs), Lending Service Providers (LSPs), and Digital Lending Apps (DLAs) under digital lending guidelines?

(A) REs must ensure that all DLAs, whether internal or from an LSP, comply with guidelines.

(B) REs are entirely absolved of liability if a DLA is operated independently by an LSP.

(C) DLAs are permitted to operate only if they bypass the outsourcing regulations of the RE.

(D) LSPs are recognized as completely independent banking entities exempt from central bank oversight.

NODIA

May/June 2010

98. Read the following scenario and answer the question that follows:

A Commercial Bank has been operating a proprietary Digital Lending App for three years. On September 10, 2022, an existing customer applies for a fresh personal loan through the app. According to the digital lending guidelines issued on September 02, 2022, how should the bank handle this application?

(A) Treat it under the old framework since the customer is an "existing" customer.

(B) Apply new instructions, as they cover fresh loans for existing customers.

(C) Wait until November 30, 2022, before processing the loan to ensure system transition.

(D) Reject the application and mandate the customer to apply via a physical branch.

Oct/Nov 2023

99. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:

Assertion (A): Regulated Entities must ensure that the Lending Service Providers (LSPs) and Digital Lending Apps (DLAs) comply with digital lending guidelines.

Reason (R): Outsourcing arrangements entered by Regulated Entities with an LSP/DLA do not diminish the REs' obligations.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

II. Open Market Operations
III. Issuing directives to regulate advances against the pledge of certain commodities
IV. Varying Reserve Ratios

Which combination represents Quantitative Credit Control Measures?
(A) I, II, and IV
(B) II, III, and IV
(C) I, II, and III
(D) I, III, and IV

Oct/Nov 2021

77. MCLR is decided with tenor-linked benchmarks. Identify the incorrect pair regarding typical tenor-linked benchmarks under the MCLR system.
(A) Overnight : One-month
(B) Three-month : Six-month
(C) One-year : Spread towards loans defining credit risk premium
(D) Ten-year fixed : Lifetime sovereign guarantee rate

May/June 2016

78. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): The Reserve Bank frequently alters minimum margins on bank advances against essential commodities like wheat, pulses, and oil seeds.
Reason (R): Altering minimum margins is a quantitative credit control measure designed to manage the overall broad money supply in the economy.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

79. Read the following statements regarding the components of the Marginal Cost of Funds-Based Lending Rate (MCLR) system and answer the question that follows:
I. Marginal cost of funds.
II. Negative carry on account of CRR.
III. Operating costs associated with providing the loan product.
IV. Tenor premium.
V. Positive carry on account of open market operations.

Which of the above components accurately comprise the MCLR?
(A) I, II, III, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, III, and IV

May/June 2023

80. The following question consists of two statements: Assertion (A) and Reason (R). Choose the most appropriate option:
Assertion (A): Selective credit controls are intended to exercise control over the price rise of essential or sensitive commodities.
Reason (R): Any rise in the prices of these essential commodities could easily trigger a rise in the general level of prices.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

81. How many possible external benchmark candidates did the August 2017 Study Group examine before making its recommendations?
(A) 5
(B) 9
(C) 13
(D) 21

May/June 2011

82. In which year did the Reserve Bank of India make use of selective credit controls for the first time to check the hoarding of food grains?
(A) 1956
(B) 1949
(C) 1969
(D) 1990

Oct/Nov 2015

83. Read the following statements and answer the question that follows:
I. Effective April 1993, the RBI raised the level

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ANSWERS

1. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In developing nations, a distinct credit policy framework is implemented alongside monetary policy to manage specific credit needs. This dual approach ensures that financial resources reach diverse sectors, regions, and socio-economic groups. By focusing on equitable distribution, the policy addresses unique developmental priorities that a broad, macro-level monetary policy might otherwise overlook in these economies.

2. (C) Foreign trade: Priority sectors vs. rural distribution.
In the context of trade and industry credit allocation, distinctions typically separate manufacturing into small and large scales and trade into internal or foreign categories. Foreign trade specifically differentiates between exports and imports rather than focusing on priority sectors or rural distribution. The latter categories are usually associated with broader regional equity goals rather than foreign trade logistics.

3. (C) Monetary policy manages macro money supply; credit policy manages the impact of those changes on the economy.
Monetary policy focuses on controlling broad dimensions such as the aggregate money supply and overall liquidity levels. Conversely, credit policy specifically addresses the cost and availability of bank advances to various economic sectors. While the former manages macro-level changes, the latter ensures those changes effectively influence production, investment, and growth across specific segments of the domestic economy.

4. (B) II and III
Credit allocation for foreign trade involves making clear distinctions between exports and imports to manage trade balances. Furthermore, selective credit controls are strategically applied to sensitive commodities to prevent hoarding and price volatility. Contrary to uniform distribution, credit to the manufacturing industry is categorized by the scale of operations, distinguishing between small-scale and large-scale industrial requirements.

5. (A) I and III
The distinction between money as an asset for the public and credit as a liability is fundamental to monetary theory. A stable demand for money ensures that any autonomous change in the money supply will directly influence interest rates or money income levels. However, the public views money as an asset, and the central bank views it as a liability.

6. (B) Developing the necessary infrastructure and distribution channels.
Effective credit planning requires more than just theoretical guidelines or mathematical models for optimal resource allocation. For these plans to succeed at the ground level, authorities must prioritize building robust infrastructure and efficient distribution channels. This ensures that the targeted credit actually reaches the intended economic sectors and regions, rather than remaining purely as a policy objective.

NODIA

7. (B) A sub-theme of monetary policy focusing on growth, investment, and money supply.
Credit policy serves as an essential sub-theme of broader monetary management within a national economy. It concentrates on regulating the cost and availability of bank credit to support vital objectives like investment and growth. By influencing how financial resources are distributed, it helps translate macro monetary changes into real economic outcomes across various sectors, industries, and regions.

8. (B) The volume of the market borrowing programme.
When formulating monetary policy, the central bank must carefully evaluate the government's market borrowing requirements. This volume significantly impacts the total liquidity available for other sectors. By accounting for these borrowing needs, the authorities can determine a desirable level of credit expansion that balances

(D) The RBI removed the bank-wise ceiling on credit given against shares and debentures.

Oct/Nov 2005

89. Match the interest rate regime in List I with its defining characteristic or issue in List II:

List I: (Regime)

P. PLR (1994)

Q. BPLR

R. Base Rate System (2010)

S. MCLR (2016)

List II: (Characteristic/Issue)

1. Flexibility in determining cost of funds caused opacity
2. Interest rate charged for the most creditworthy borrowers
3. Comprises marginal cost of funds and tenor premium
4. Dominance of lending below this rate defeated its purpose

(A) P-2, Q-4, R-1, S-3

(B) P-4, Q-2, R-3, S-1

(C) P-1, Q-3, R-2, S-4

(D) P-3, Q-1, R-4, S-2

May/June 2013

90. Read the following scenario and answer the question that follows:

A senior banker notes that in the 1980s, the bank frequently received directives restricting advances against specific commodities. However, in the current deregulated financial environment, such specific directives are rarely seen, with the central bank relying instead on broader policy rates. This shift illustrates which phenomenon?

(A) Selective controls have declined recently due to financial deregulation.

(B) The complete abandonment of monetary policy by the central bank.

(C) The transition from a fiat currency system back to the gold standard.

(D) The total collapse of the agricultural sector requiring no credit flow.

Oct/Nov 2020

91. Read the following statements regarding credit policy and digital lending and answer the question that follows:

I. Real credit is measured based on a given base year's price level.

II. The allocation of credit among competing sectors falls within the ambit of credit planning.

III. The MCLR system entirely resolved all issues of uneven monetary transmission.

IV. Regulated Entities shall conform to extant guidelines on outsourcing in digital lending.

V. The BPLR system was introduced after the MCLR system.

Which of the above statement(s) is/are correct?

(A) I, II, and IV

(B) II, III, and V

(C) I, III, and IV

(D) I, II, and V

May/June 2025

92. Read the following statements regarding the applicability of Digital Lending Guidelines and answer the question that follows:

I. The instructions apply to existing customers availing fresh loans.

II. The instructions apply to new customers getting onboarded from the date of the circular.

III. REs were given time till November 30, 2022, to put in place systems for existing digital loans.

IV. The guidelines diminish the extant guidelines on outsourcing.

V. Existing digital loans sanctioned as on the date of the circular must also comply in both letter and spirit by the given deadline.

Which of the above statement(s) is/are correct?

(A) I, II, III, and V

(B) I, II, III, and IV

(C) II, III, IV, and V

(D) I, III, IV, and V

Oct/Nov 2014

93. Which of the following statements is correct regarding the RBI guidelines on Digital Lending dated September 02, 2022?

(A) The guidelines are applicable only to housing finance companies and exclude commercial banks.

(B) The guidelines explicitly prohibit Regulated Entities from engaging any Lending Service Providers.

(C) The guidelines nullify all prior instructions regarding outsourcing arrangements.

(D) These apply to Commercial Banks, Co-operative Banks, and NBFCs.

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17. (A) Calculate residual credit for the commercial sector after accounting for government needs.
When the government expands its market borrowing, the central bank must analyze the impact on overall liquidity. Since a significant portion of funds will be absorbed by government needs, the central bank must calculate the residual credit available for the commercial sector. This step is vital to prevent severe shortages for private businesses while ensuring the public debt is funded.

18. (A) By designing credit allocation patterns that align with national socio-economic goals.
National credit policy prevents commercial banks from prioritizing speculative high-yield loans over essential sectors like agriculture. It achieves this by designing specific allocation patterns that align with broad socio-economic objectives. This regulatory oversight ensures that credit is directed toward productive activities that benefit the general economy, rather than being concentrated solely where short-term corporate profits might be the highest.

19. (C) Both I and II
Credit allocation strategies require identifying priority sectors that cut across various industrial and trade classifications to ensure essential areas receive funding. Additionally, achieving a balanced distribution between rural and urban sectors is necessary for geographic equity. Both considerations are vital for a comprehensive credit policy that supports widespread economic development and addresses the needs of diverse regional and sectoral groups.

20. (A) Ensuring that credit is not diverted to unproductive or speculative activities.
Central bank regulations explicitly prohibit the use of institutional credit for speculative hoarding of essential commodities. By refusing such loans, banks prevent the diversion of funds into unproductive activities that could lead to artificial price increases. This principle ensures that bank resources are reserved for legitimate production and trade, thereby protecting market stability and consumer interests during periods of shortage.

21. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The central bank determines the distribution of credit between the government and commercial sectors by evaluating several macroeconomic factors. It assesses fiscal borrowing requirements, expected foreign exchange movements, and the ability of banks to mobilize deposits. These parameters provide a realistic basis for deciding how much credit can be safely allocated to each sector without jeopardizing overall monetary stability or growth.

22. (A) Only I
The central bank's broad policy stance simultaneously regulates both the money supply and the total availability of credit. However, in a developing economy, simply determining overall availability is insufficient. It is also necessary to implement specific sectoral allocations to ensure that priority areas, regions, and smaller economic participants receive adequate funding to meet diverse national growth and equity objectives.

23. (A) P-3, Q-4, R-1, S-2
Monetary policy manages macro-level changes in money supply, while credit policy focuses on the cost and sectoral availability of bank advances. The transmission mechanism describes the process where shifts in money supply influence expenditure in the commodity market. Institutional sources refer to entities like banks that provide loans to the commercial sector, forming the backbone of the formal financial system.

24. (A) P-4, Q-1, R-3, S-2
Credit allocation is structured across various dimensions. Industrial classification focuses on sectors like the manufacturing industry, while trade classification distinguishes between internal and foreign trade, including exports and imports. Economic status categorizes individual borrowers based on their financial standing. Finally, regional distribution addresses the balance of credit flow between different geographic areas, such as the rural and urban sectors.

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

100. Read the following scenario and answer the question that follows:
A State Co-operative Bank has an existing portfolio of digital loans disbursed prior to September 02, 2022, which do not meet current digital lending guidelines. To ensure regulatory adherence for existing loans, what specific allowance is granted to the bank?
(A) The bank is granted permanent exemption for these historical loans.
(B) The bank must immediately recall all non-compliant existing loans within 24 hours.
(C) The bank has until November 30, 2022, to ensure these loans meet guidelines.
(D) The bank must transfer these loans to an unregulated peer-to-peer platform.

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of credit ceiling by 15 per cent on advances against wheat, rice, paddy, and oil seeds.
II. Effective April 1990, the base period for fixing up the ceiling was brought backward by five years.
III. The RBI has removed the bank-wise ceiling on credit given against shares and debentures.

Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2009

84. Read the following scenario and answer the question that follows:
Under the Base Rate System, Bank A calculates its base rate using the average cost of funds, while Bank B uses the marginal cost of funds. Consequently, when the central bank cuts the repo rate, Bank B lowers its lending rate faster than Bank A. How does this structural flexibility affect macroeconomic management?
(A) It perfectly synchronizes all bank rates with the repo rate.
(B) It eliminates the need for selective credit controls.
(C) It causes opacity and renders the assessment of monetary transmission difficult.
(D) It entirely shifts the economy from a bank-centric system to market-based financing.

Oct/Nov 2022

85. Read the following scenario and answer the question that follows:
The central bank reduces the key policy rate by 50 basis points. However, a major commercial bank reduces its lending rate to customers by only 10 basis points. When queried, the bank's pricing methodology is found to be highly complex and non-transparent. Which underlying factor does this scenario highlight as an impediment to monetary transmission?
(A) The excessive transparency of the open market operations.
(B) The strict enforcement of a 100% cash reserve ratio.
(C) Opacity in the process by which banks set their lending interest rates.
(D) The global standardization of sovereign bond yields.

May/June 2017

86. Match the credit control instrument in List I with its correct category or description in List II:
List I: (Instrument)
P. Open Market Operations
Q. Higher margins on commodity advances
R. Directives restricting speculative credit
S. Varying Reserve Ratios
List II: (Category/Description)
1. Selective Credit Control (Allocation pattern)
2. Selective Credit Control (Anti-speculative)
3. Quantitative Credit Control (Money supply regulation)
4. Quantitative Credit Control (Bank credit creation capacity)
(A) P-3, Q-1, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-1, Q-4, R-3, S-2
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2011

87. Match the types of uneven transmission under MCLR in List I with their descriptions in List II:
List I: (Type of Unevenness)
P. Type 1
Q. Type 2
R. Type 3
S. Spread variation indicator
List II: (Description)
1. Between deposit and lending rates
2. Between fresh rupee loans and outstanding rupee loans
3. Across the sectors of the economy
4. Difference between lending rate and 1-year MCLR
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-3, S-1

May/June 2024

88. Identify the incorrect statement regarding the rationing of credit (credit ceiling).
(A) The RBI has fixed ceilings for bank advances against certain commodities as a selective credit control.
(B) A 100% ceiling on peak level credit was fixed for wheat and cotton in 1989.
(C) The role of selective credit controls serves as the primary direct measure of monetary control, completely replacing OMO and Reserve Ratios.

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the funding of public debt with the credit requirements of the commercial sector.

9. (B) The monetary budget, emerging as its offshoot.
The total quantum of credit available for distribution within an economy is directly linked to the broader monetary budget. In this framework, the credit budget emerges as a specific offshoot of the overall monetary plan. Consequently, the availability of financial resources for sectors like agriculture or manufacturing is constrained by the macro-level targets set within this primary monetary blueprint.

10. (A) I and II
The Reserve Bank actively regulates both the cost of credit through interest rate frameworks and the quantity of credit via various policy instruments. These controls ensure monetary stability while supporting economic growth. Furthermore, the central bank also monitors the purpose of credit disbursement to prevent speculative activities and ensure that funds are directed toward productive sectors of the economy.

11. (D) The quantum of total credit that has to be distributed depends on the monetary budget.
For commercial banks, the central bank's monetary budget is a critical reference for forecasting credit disbursement. The total volume of credit available for the entire economy is derived directly from the targets established in the monetary budget. Understanding these macro-level limits allows banks to align their individual lending capacities with the broader credit constraints and objectives set by authorities.

12. (C) Bank credit acts as a liability for banks but an asset for the public and government.
(C) Bank credit acts as an asset for banks but a liability for the public and government. In the financial system, the public holds money as an asset, while for the government and central bank, it is a liability. Conversely, bank credit is an asset for commercial banks because it represents a loan to be repaid. For the borrowers, including the public or government, this credit is a liability that they are obligated to return.

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13. (A) Macro allocation: Directing credit to sectors like agriculture and manufacturing.
Credit planning within the commercial sector involves the macro-level distribution of funds across various economic activities. This process prioritizes directing credit to essential areas such as agriculture and manufacturing to foster balanced growth. By classifying credit needs into broad sectors, planning authorities ensure that financial resources are utilized effectively to meet national production targets and support diverse economic requirements.

14. (C) Credit policy is an adjunct to monetary policy, which determines total credit volume.
In structural terms, credit policy serves as an adjunct to the overarching monetary policy. While monetary policy sets the macro limits for total credit volume and money supply, credit policy focuses on how those funds are distributed and the cost of such advances. Together, they work in tandem to maintain price stability while ensuring that credit flows meet sectoral demands.

15. (D) Determining the statutory personal income tax rates for retail borrowers.
Credit planning involves distributing available funds among main activities like agriculture and manufacturing and establishing rules for individual borrower classification by status. It focuses on the internal allocation and regulation of bank credit within the economy. However, determining personal income tax rates is a function of fiscal policy managed by the government, falling outside the scope of banking credit management.

16. (A) Price stability and promotion of economic growth
The Reserve Bank of India aims to achieve two primary objectives while framing its credit policies. First, it seeks to maintain price stability to control inflation and protect purchasing power. Simultaneously, it works to promote sustainable economic growth by ensuring that productive sectors receive adequate credit. Balancing these goals is essential for fostering a stable and healthy macroeconomic environment.

to established practices regarding selective credit controls, what action is the central bank most likely to take next?

(A) Permanently ban all bank advances against paddy and rice.
(B) Increase the Statutory Liquidity Ratio to absorb excess agricultural profits.
(C) Relax the conditions by reducing the margin requirements across-the-board.
(D) Convert the margin requirements into direct government taxes.

Oct/Nov 2006

71. Match the category of benchmark candidates in List I with the specific rates in List II:

List I: (Category)
P. Recommended by Study Group
Q. Examined but not part of final 3 recommendations
R. Examined internal benchmark system
S. Rate system before Base rate

List II: (Specific Rates)
1. MIBOR, OIS, 14-day term repo rate
2. T-Bill rate, CD rate, RBI policy repo rate
3. BPLR
4. MCLR

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-4, R-1, S-2

May/June 2018

72. Read the following scenario and answer the question that follows:

A structural change in the economy leads to an acute shortage of pulses. Traders begin hoarding pulses by borrowing heavily against their existing stocks to artificially inflate prices. What specific type of measure would the central bank most effectively deploy to combat this specific issue without disrupting overall credit availability?

(A) Increasing the Bank Rate drastically.
(B) Raising margins for advances against pulses via selective credit controls.
(C) Selling government securities via Open Market Operations.
(D) Raising the overall Statutory Liquidity Ratio for all sectors.

Oct/Nov 2012

73. Arrange the interest rate setting methodologies implemented by banks in India in their correct chronological order of introduction:

1. Base Rate System
2. Prime Lending Rates (PLRs)
3. Marginal Cost of Funds-Based Lending Rate (MCLR) system
4. Benchmark Prime Lending Rate (BPLR)

(A) 2, 4, 1, 3
(B) 4, 2, 3, 1
(C) 2, 1, 4, 3
(D) 1, 2, 4, 3

May/June 2022

74. Consider the following statements regarding the current relevance of selective credit controls:

I. The role of selective credit controls has increased exponentially in recent periods to become the sole tool of the central bank.
II. The decline in the role of selective credit controls occurred particularly in the wake of financial deregulation.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2008

75. Read the following scenario and answer the question that follows:

Noting that banks were using varying methods to calculate MCLR and charging inconsistent spreads, the Reserve Bank convened a Study Group in August 2017 to evaluate the system. After evaluation, what radical shift in pricing methodology did the group recommend to resolve the lack of transparency?

(A) Reverting back to the Benchmark Prime Lending Rate (BPLR) system.
(B) Allowing banks to completely abandon publishing any benchmark rate.
(C) Fixing a single, universal lending rate for all commercial banks via legislation.
(D) Switching over to an external benchmark to price bank loans.

May/June 2014

76. Consider the following measures employed by central banks:

I. Bank Rate

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25. (A) I, II, III, and IV
Formulating monetary policy requires analyzing the government's market borrowing programme and projected foreign exchange flows. Additionally, the central bank evaluates the banks' efficiency in mobilizing deposits and their capacity to participate in government borrowing. These factors together define the total liquidity environment. While institutional health is important, the international sovereign rating of non-banking companies is not a primary policy formulation factor.

26. (D) Dimensions include quantum, sources, and nature of credit, alongside specific allocation mechanisms.
In practice, credit policy operates across multiple dimensions, including the total quantum of credit, the various sources of funds, and the specific nature of loans. It also involves establishing formal mechanisms for credit allocation to ensure equitable distribution. These dimensions collectively help authorities manage the impact of monetary changes on different sectors while considering regional, sectoral, and equity requirements.

27. (A) The credit budget emerges as an offshoot of the monetary budget.
The credit budget is structurally linked to the broader monetary budget, acting as its direct offshoot. While the monetary budget establishes the macro targets for money supply and liquidity, the credit budget translates these limits into specific plans for fund distribution. This relationship ensures that the total volume of credit disbursed remains consistent with the central bank's overall monetary policy objectives.

28. (A) Speculative activities
The Reserve Bank's credit policy is designed to support all productive sectors of the economy, including agriculture and manufacturing. A fundamental principle of this policy is ensuring that institutional credit is never diverted toward speculative activities. By preventing funds from being used for unproductive or risky market speculation, the central bank maintains financial stability and ensures resources serve genuine economic growth.

29. (D) Assertion (A) is false, but Reason (R) is true.
Credit planning is more than just a mathematical exercise for finding a socially optimal path for total bank credit. In reality, successful implementation depends on creating the necessary physical infrastructure and distribution channels. Without these practical foundations, theoretical models for credit allocation cannot effectively reach the targeted sectors or achieve the desired socio-economic impact at the ground level.

30. (D) The central bank policy regarding changes in the cost and sectoral availability of bank credit.
In central banking operations, "Credit Policy" is formally defined as the framework managing changes in both the cost and the sectoral availability of bank credit. This policy works as an adjunct to monetary policy, focusing on how financial resources are distributed among different industries and regions to ensure that credit flows support broader national investment and growth objectives effectively.

31. (C) These measures may not differ materially due to relative price stability.
Nominal credit represents the volume of credit at current prices, while real credit is adjusted for price changes. In a scenario of absolute price stability with zero inflation, there are no significant price fluctuations to cause a gap between these two figures. Therefore, nominal and real credit measures would remain materially similar, reflecting the underlying stability of the economy's price levels.

32. (B) Credit to the commercial sector will be crowded out, impacting growth.
When the central bank raises the Statutory Liquidity Ratio (SLR) to absorb excess government borrowing, banks must invest a larger portion of their deposits into government bonds. This redirection of funds naturally reduces the pool of credit available for private businesses. This "crowding out" effect can hamper commercial sector investment and overall economic growth by limiting access to necessary financing.

33. (B) Nominal credit would be much higher than real credit.
During periods of high inflation, the general price level rises significantly. Nominal credit is measured in current prices, reflecting these

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effectively lowers the borrowing costs for the public sector.

51. (D) Direct central bank absorption aggressively reduces inflation.
Direct central bank absorption typically increases inflation. When the central bank directly absorbs excess government borrowing, it typically leads to an increase in the money supply. This process is inherently inflationary rather than deflationary. While the central bank can also choose to raise the Statutory Liquidity Ratio to force banks to absorb debt, this alternative crowds out commercial credit, impacting private sector growth instead of directly fueling inflation.

52. (A) I and II
Monetary authorities can influence the creation of additional nominal credit by varying reserve money levels. They may choose to exercise restraint if nominal credit grows much faster than real credit, as this disparity indicates rising prices. However, a situation where nominal credit is significantly above real credit implies an increase in the general price level (inflation) rather than a fall.

53. (C) The physical planning undertaken under national Five-Year Plans.
The mechanism for credit allocation in India is deeply rooted in national physical planning. It follows the frameworks established under Five-Year Plans, where specific production and investment targets are determined for different sectors. Credit planning then translates these physical requirements into financial sub-plans, ensuring that bank advances are directed toward activities that align with the country's long-term development strategies.

54. (A) P-2, Q-4, R-3, S-1
Allocation to the government operates through SLR requirements on financial institutions, while inter-industry allocation directs credit to ensure the desired composition of output. Inter-borrower allocation involves micro-level risk and collateral assessment. These processes are guided by physical planning mechanisms, where national Five-Year Plans provide the overarching investment sub-plans that determine the necessary sectoral and geographic distribution of financial resources.

55. (A) It depends on banks' SLR requirements and other financial institutions' capacity.
The absorption of the government's market borrowing program is primarily driven by the Statutory Liquidity Ratio (SLR) requirements imposed on banks. Additionally, the investment capacities of other major financial institutions like insurance companies and provident funds play a crucial role. These institutional requirements create a steady demand for government securities, ensuring that the public sector's borrowing needs are funded.

56. (D) Assertion (A) is false, but Reason (R) is true.
Monetary authorities exercise direct control over nominal credit through policy instruments, while real credit is determined by price movements. The total volume of credit that banks can disburse is fundamentally dependent on their success in mobilizing deposits from the public. Therefore, while banks manage the flow based on available funds, the central bank influences the nominal limits through monetary regulation.

57. (A) Absorb the excess borrowing or raise the SLR level.
When government borrowing exceeds what banks and institutions can naturally absorb through current SLR levels, the central bank faces two primary choices. It can either directly absorb the excess borrowing, which increases the money supply and is inflationary, or it can raise the SLR requirement. Raising the SLR forces banks to hold more government debt, thereby reducing credit for businesses.

58. (A) In high inflation, nominal credit remains identical to real credit.
In high inflation, nominal credit diverges significantly from real credit. In reality, during high inflation, nominal credit and real credit diverge significantly. Nominal credit reflects the current, inflated price levels, while real credit is adjusted for those price changes. This distinction provides a useful measure of how much the general price level has shifted. While authorities control nominal credit levels, price neutrality only occurs if the real credit level also increases.

59. (C) Assertion (A) is true, but Reason (R) is false.
Inter-borrower allocation is indeed the final stage of credit distribution to specific individuals or

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42. (A) Only I
The public chooses to hold bank deposits as a significant part of their overall asset portfolio. This choice is vital because the volume of credit banks can provide is not independent; it directly depends on these deposit levels. When the public's asset preferences shift toward deposits, banks gain greater capacity for credit expansion, whereas a shift away from deposits limits lending.

43. (A) I, II, III, and IV
When government borrowing exceeds institutional capacity, the central bank has two main options: absorb the excess borrowing or raise the SLR. Direct absorption is inflationary because it increases the money supply. Alternatively, raising the SLR forces banks to fund the government, which crowds out credit for the commercial sector. Both options present trade-offs that impact inflation and private sector growth differently.

44. (A) P-2, Q-4, R-3, S-1
In credit allocation modeling, X_{it} denotes the planned output of a specific sector, while I_{it}* represents its planned investment expenditure. The symbol B_i is used for the bank credit-output coefficient, and C_i stands for the bank credit-investment coefficient. These variables are essential for linking the financial credit requirements with the physical production and investment goals defined in economic planning.

45. (C) It makes efforts in building the necessary institutional structure.
To ensure that credit flows to specific priority sectors like renewable energy, the central bank does more than just issue policy directives. It actively participates in building the necessary institutional structures and distribution channels. This foundational work is essential to bridge the gap between high-level policy goals and the actual delivery of financial resources to the targeted industries and borrowers.

46. (B) The credit measured based on a given base year's price level.
Real credit is a measure of the total volume of credit adjusted for changes in the price level. By calculating credit based on a constant base year's prices, this measure removes the distorting effects of inflation. It allows economists to assess the actual growth in the purchasing power provided by bank lending, rather than just the nominal increase in currency volume.

47. (B) Inter-Borrower Allocation
The process of reviewing individual loan applications, assessing collateral, and evaluating default risk occurs at the inter-borrower allocation stage. This is the final phase where credit is distributed to specific firms or individuals. Unlike macro-level sectoral or government allocations, this stage focuses on the micro-level creditworthiness and specific funding purposes of each borrower within a given sector or industry.

48. (B) Price neutrality occurs because the real credit level also moves up.
Price neutrality is achieved when the expansion of nominal credit is perfectly balanced by an equivalent increase in production. In this state, as nominal credit grows, the real credit level also increases proportionately with output. This balance prevents excess liquidity from driving up prices, ensuring that the additional money supply supports actual economic growth without triggering inflationary pressures in the commodity market.

49. (C) I and III
The inter-industrial allocation of credit aims to ensure that financial flows support specific national output goals. By directing funds toward selected industries, authorities can encourage the production and growth of essential sectors. This targeted approach helps shape the overall composition of economic output, ensuring that critical industrial activities receive the necessary credit to meet planned development and production targets for the country.

50. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The government can borrow funds at interest rates lower than free market rates due to the Statutory Liquidity Ratio (SLR) requirement. This regulation mandates that banks and financial institutions invest a minimum portion of their liabilities into government and approved securities. By creating a captive market for government debt, this statutory obligation

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methods, such as average or marginal costs, their lending rates responded inconsistently to central bank policy changes. This lack of uniformity created opacity in the pricing process, making it difficult for authorities to accurately assess and manage the overall effectiveness of monetary transmission.

85. (C) Opacity in the process by which banks set their lending interest rates.
When banks do not fully pass on policy rate cuts to their customers, it often points to a lack of transparency in their interest rate setting process. Complex and opaque internal benchmarks hinder effective monetary transmission. This prevents central bank impulses from reaching the real economy efficiently, as the methodology used to calculate lending rates may not be directly responsive to market changes.

86. (A) P-3, Q-1, R-2, S-4
Open Market Operations are a quantitative tool for managing the money supply. Higher margins on commodity advances are selective controls focusing on allocation patterns. Directives restricting speculative credit serve as anti-speculative selective measures. Finally, varying reserve ratios are quantitative instruments that directly affect the bank's capacity for credit creation. These different tools allow the central bank to address both macro and microeconomic stability.

87. (A) P-3, Q-1, R-2, S-4
Under the MCLR system, uneven transmission is categorized into different types. Type 1 refers to variations across different economic sectors. Type 2 concerns the gap between deposit and lending rates. Type 3 involves differences between fresh and outstanding loans. Additionally, variations in the spread between the lending rate and the 1-year MCLR serve as a key indicator of uneven policy transmission.

88. (C) The role of selective credit controls serves as the primary direct measure of monetary control, completely replacing OMO and Reserve Ratios.
(C) Selective credit controls serve as supplemental measures of monetary control, working alongside OMO and Reserve Ratios. Selective credit controls, such as credit ceilings and margin requirements, are supplemental rather than primary tools. They are designed to manage specific commodity prices and speculation, not to replace broader quantitative measures like Open Market Operations or Reserve Ratios. While the RBI has used ceilings for commodities like wheat and cotton in the past, they operate alongside, not instead of, macro-level instruments.

89. (A) P-2, Q-4, R-1, S-3
The PLR was the rate for creditworthy borrowers, but the BPLR's purpose was defeated by excessive sub-BPLR lending. The Base Rate System faced issues with opacity due to flexibility in calculating fund costs. The MCLR system was introduced to improve responsiveness by using the marginal cost of funds and a tenor premium. These regimes show the central bank's evolution toward more transparent pricing.

90. (A) Selective controls have declined recently due to financial deregulation.
The shift away from specific commodity-based directives toward broader policy rates reflects the impact of financial deregulation. In a more open and market-driven financial environment, the central bank relies less on direct micro-interventions like selective credit controls. Instead, it uses interest rate frameworks and quantitative tools to manage overall liquidity, allowing market mechanisms more freedom to allocate credit among sectors.

91. (A) I, II, and IV
Real credit is measured against base year prices, and credit planning includes allocating funds among competing sectors. Modern digital lending guidelines require regulated entities to strictly follow outsourcing standards. However, the MCLR system did not solve all transmission issues, as unevenness remained. Furthermore, the BPLR system was introduced well before the MCLR system, following a different chronological order of interest rate reforms.

92. (A) I, II, III, and V
Digital lending guidelines apply to both new customers and existing customers receiving fresh loans. Regulated entities were given until November 30, 2022, to bring their existing digital loan portfolios into compliance with the new standards. These instructions do not diminish existing outsourcing rules. All digital loans

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firms. However, this process is not determined by statutory resolutions alone. Banks must also carefully evaluate micro-level factors such as the purpose of the loan, the borrower's default risk, and the quality of the security or collateral offered before deciding to disburse any financial resources.

60. (B) Because real sector growth requirements must match the credit plan.
Coordination between the Reserve Bank and planning authorities is essential to ensure that the credit plan supports real sector growth requirements. By aligning financial resources with physical production and investment targets, the central bank can provide the necessary liquidity for growth while maintaining price stability. This synergy ensures that credit flows efficiently to sectors identified as national priorities for development.

61. (A) 2, 1, 3, 4
Regulatory actions regarding margins follow specific chronological developments. Initially, minimum margins on wheat advances were reduced. Subsequently, the central bank raised margins on oil seeds and vegetable oils in two separate instances to curb speculation. Finally, the minimum margin requirements for loans against shares and debentures were lowered from 75 per cent to 50 per cent as part of financial regulatory shifts.

62. (C) I, II, and IV
In 1994, lending rates were deregulated, requiring banks to disclose Prime Lending Rates (PLRs). By 2003, this shifted to the Benchmark Prime Lending Rate (BPLR), which remained an internal reference until mid-2010. However, the prevalence of sub-BPLR lending actually weakened, rather than strengthened, the effectiveness of the BPLR system, as it made the benchmark rate less meaningful for transparency.

63. (A) Higher margin requirements for advances against sensitive commodities.
Quantitative credit control measures, such as the Bank Rate, Open Market Operations, and Statutory Liquidity Ratio, are designed to regulate the overall money supply and credit creation capacity. In contrast, setting higher margin requirements for advances against specific sensitive commodities is a selective credit control. These selective tools target the allocation of credit to specific items rather than managing aggregate liquidity levels.

64. (C) The MCLR system successfully eliminated all transmission lags and ensured perfect interest rate parity.
(C) The MCLR system did not eliminate all transmission lags and faced challenges in achieving perfect interest rate parity. Experience with the MCLR system shows that it did not achieve perfect monetary transmission. Lags remained, and transmission was uneven across different economic sectors and between deposit and lending rates. Furthermore, the spread between the lending rate and the 1-year MCLR exhibited significant variations. These shortcomings highlighted that internal benchmarks still faced challenges in accurately reflecting policy rate changes in bank lending.

65. (A) They are supplemental tools primarily intended to control essential commodity prices.
The fundamental limitation of selective credit controls is their specialized nature. These controls are supplemental tools designed specifically to manage the prices of essential or sensitive commodities by curbing speculative hoarding. They are not intended for broad macroeconomic management and cannot replace quantitative tools like the Bank Rate or Reserve Ratios, which are more effective at regulating the overall money supply.

66. (B) I, II, and IV
The 2017 Study Group concluded that internal benchmarks like the Base Rate and MCLR failed to provide effective monetary transmission. They noted that arbitrary calculations undermined the integrity of interest rate setting. Consequently, the group recommended switching to external benchmarks to improve transparency and responsiveness to policy changes. This reflected a shift away from internal models that were not in sync with global practices.

67. (C) Quantitative tools manage money supply; selective tools manage allocation and speculation.
Quantitative credit controls are primarily designed to manage the aggregate money supply and overall liquidity within the economy. On the

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other hand, selective credit controls are targeted measures intended to influence the allocation of credit toward specific commodities or sectors and to curb speculative activities. This functional distinction allows the central bank to maintain macro stability while addressing micro-level market distortions.

68. (B) The transmission from the policy rate to banks' lending rates.
Because the Indian financial system is bank-centric, the central bank's primary concern is how effectively its policy rate changes reach the real economy. This process, known as monetary transmission, depends on how quickly and transparently banks adjust their lending rates in response to central bank impulses. Ensuring efficient transmission is vital for the success of monetary policy in managing inflation and growth.

69. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
While the Base Rate System was introduced to enhance transparency over BPLR, assessing monetary transmission remained difficult. This difficulty arose because banks were given significant flexibility to calculate their cost of funds using various methods, such as average or marginal costs. This structural flexibility introduced opacity into how lending rates were determined, making it harder to track the direct impact of policy changes.

70. (C) Relax the conditions by reducing the margin requirements across-the-board.
Selective credit controls are designed to be flexible and responsive to supply conditions. When a bumper harvest makes the supply situation easy, the need to prevent speculative hoarding diminishes. In such a scenario, the central bank is most likely to relax existing restrictions by reducing margin requirements across-the-board. This encourages the flow of credit to support the trade and distribution of the abundant harvest.

71. (A) P-2, Q-1, R-4, S-3
The Study Group recommended external benchmarks like T-Bill rates and the RBI policy repo rate. Other candidates examined but not recommended included MIBOR and the 14-day term repo rate. The MCLR served as the examined internal benchmark system, which followed the older BPLR and Base Rate regimes. These shifts reflect the central bank's ongoing efforts to improve interest rate transparency and transmission.

72. (B) Raising margins for advances against pulses via selective credit controls.
To combat speculative hoarding of a specific commodity like pulses without affecting the entire economy's credit supply, the central bank uses selective credit controls. By raising the margin requirements for advances against pulses, the bank makes it more expensive for traders to borrow against their stocks. This targeted action directly discourages hoarding and price manipulation while leaving broader quantitative credit availability unchanged.

73. (A) 2, 4, 1, 3
The evolution of interest rate setting in India began with the deregulation of Prime Lending Rates (PLRs) in 1994. This was followed by the introduction of the Benchmark Prime Lending Rate (BPLR) in 2003. Subsequently, the Base Rate System was implemented in July 2010 to improve transparency, which was later replaced by the Marginal Cost of Funds-Based Lending Rate (MCLR) in April 2016.

74. (B) Only II
The role of selective credit controls has actually declined in recent years, particularly following the period of financial deregulation. While these tools were once used extensively to manage specific commodity prices, the central bank now relies more on broader quantitative instruments and policy rates. Modern monetary management prioritizes general liquidity and interest rate frameworks over the direct, specific micro-interventions typical of selective credit controls.

75. (D) Switching over to an external benchmark to price bank loans.
To address the lack of transparency and uneven transmission in the MCLR system, the 2017 Study Group recommended a fundamental shift. They proposed that banks switch to external benchmarks for pricing loans. Moving away from internal calculations reduces arbitrariness and ensures that lending rates are more directly

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linked to market-based or policy-based indicators, thereby improving the overall effectiveness and integrity of monetary transmission.

76. (A) I, II, and IV
Quantitative credit control measures aim to regulate the total volume of money and bank credit. These include the Bank Rate, Open Market Operations, and varying reserve ratios like CRR and SLR. In contrast, issuing directives to regulate advances against specific commodities is a selective control. Selective tools focus on the direction and purpose of credit, while quantitative tools focus on the overall supply.

77. (D) Tenary-year fixed : Lifetime sovereign guarantee rate
The MCLR system uses various tenor-linked benchmarks such as overnight, one-month, three-month, six-month, and one-year rates. It also incorporates a spread that defines the credit risk premium for specific loans. However, it does not include a "ten-year fixed" rate based on a "lifetime sovereign guarantee." The system is designed to reflect the bank's marginal cost of funds across standard tenors.

78. (C) Assertion (A) is true, but Reason (R) is false.
The Reserve Bank frequently adjusts minimum margins on advances against essential commodities to prevent speculative hoarding and control specific price rises. However, this is a selective credit control measure, not a quantitative one. Quantitative measures are designed to manage the broad money supply, whereas selective measures like altering margins target the allocation and use of credit for specific, sensitive market segments.

79. (D) I, II, III, and IV
The Marginal Cost of Funds-Based Lending Rate (MCLR) is composed of four specific elements: the marginal cost of funds, the negative carry on account of the Cash Reserve Ratio (CRR), operating costs, and the tenor premium. These components collectively ensure that the lending rate reflects the bank's actual marginal cost and the specific risks associated with the duration of the loan product.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Selective credit controls target the prices of essential commodities to prevent localized inflation from spreading. Since a price rise in these sensitive items can quickly trigger a broader increase in the general price level, the central bank uses these controls to curb speculative activities. This ensures that credit is not used to hoard essential goods, thereby maintaining price stability for the economy.

81. (C) 13
When searching for an effective replacement for the MCLR system, the August 2017 Study Group conducted a thorough evaluation of various options. They examined a total of thirteen possible external benchmark candidates. This extensive review allowed the group to identify the most suitable market-based and policy-based indicators to improve the transparency and responsiveness of bank lending rates to monetary policy changes.

82. (A) 1956
The Reserve Bank of India first utilized selective credit controls in 1956. This initial application was specifically aimed at checking the hoarding of food grains by regulating the amount of bank credit provided against such commodities. Since then, these controls have served as a supplemental tool for the central bank to manage speculative pressures in markets for essential and sensitive agricultural products.

83. (C) I and III
In April 1993, the RBI increased the credit ceiling by 15 per cent for advances against several essential commodities, including wheat and rice. Additionally, the bank has removed individual bank-wise ceilings on credit given against shares and debentures. However, the base period for fixing up ceilings is periodically updated rather than being uniformly brought backward by five years across all regulations.

84. (C) It causes opacity and renders the assessment of monetary transmission difficult.
The Base Rate System allowed banks significant flexibility in calculating their internal cost of funds. Because different banks used different

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inflated values, whereas real credit is adjusted to a base year's price level. Consequently, the nominal credit figure appears much larger than the real credit figure because it includes the impact of rising prices, hiding the actual purchasing power change.

34. (C) Both I and II
Formulating credit allocation policies requires a deep understanding of their socio-economic implications to ensure balanced growth. Furthermore, the effective realization of these policy goals is contingent upon meeting specific prerequisites and complementary conditions, such as having the right institutional infrastructure. Both factors are essential for translating theoretical credit planning into successful real-world outcomes that benefit the wider national economy.

35. (A) I, II, and III
In the theoretical credit allocation model, B_t^* signifies the planned total bank credit for the commercial sector. X_{it} represents the planned output for a specific sector, and I_{it}^* denotes the planned investment expenditure. However, the bank credit-investment coefficient is typically represented by C_i. These variables help planners estimate how much credit is required to meet specific production and investment targets.

36. (A) Sub-plans: Investment and production frameworks drawn up for each sector in a full Plan.
Credit allocation mechanisms in national planning rely on detailed sub-plans. These sub-plans establish specific investment and production frameworks for each sector within the overall economic plan. By aligning financial distribution with these sectoral targets, authorities can ensure that credit flows directly support the physical output goals and investment requirements identified during the national physical planning process for the economy.

37. (A) The volume of credit measured at current prices.
Nominal credit is the total volume of credit expressed in terms of current market prices. It reflects the absolute numerical value of credit disbursed at any given point in time. While this measure is influenced by fluctuations in the general price level, it is the primary variable controlled by monetary authorities through changes in reserve money and other policy instruments.

38. (D) Statutory Liquidity Ratio (SLR)
The Statutory Liquidity Ratio (SLR) is a policy instrument used by the central bank to mandate that banks invest a specific percentage of their liabilities in government and approved securities. This requirement ensures that a portion of bank funds is diverted to fund public debt. By adjusting the SLR, the central bank directly influences the amount of credit remaining for private sector lending.

39. (D) The international sovereign rating of the domestic currency.
At the inter-borrower level, banks evaluate several factors before disbursing credit, including interest rates, the total loan amount, and the security offered. They also consider the specific purpose of the credit and the inherent risk of default. However, the international sovereign rating of the domestic currency is a macro-level indicator and is not part of the individual firm's credit assessment process.

40. (D) Public asset preferences and the banks' deposit mobilization efforts.
The total volume of credit that banks can ultimately disburse is fundamentally determined by the amount of deposits they can collect from the public. This capacity depends on the public's preference for holding financial assets like bank deposits versus other forms of wealth. Therefore, a bank's success in mobilizing deposits directly dictates the limit of its lending capabilities within the economy.

41. (B) Bank credit-Investment coefficient for the ith sector
In the theoretical model for credit allocation, the coefficient C_i represents the specific relationship between bank credit and investment for a given sector. This bank credit-investment coefficient helps planners determine the amount of bank financing required for every unit of planned investment in that sector. It is a critical parameter for calculating the total credit needs within an industrial or agricultural sub-plan.

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sanctioned before the circular must eventually comply in both letter and spirit by the specified deadline.

93. (D) These apply to Commercial Banks, Co-operative Banks, and NBFCs.
The RBI guidelines on digital lending issued in September 2022 have a broad scope. They apply to all commercial banks, primary, state, and central co-operative banks, and non-banking financial companies, including housing finance companies. These guidelines do not nullify existing outsourcing rules but rather supplement them, ensuring that all regulated entities maintain high standards of compliance and consumer protection in digital lending.

94. (A) P-3, Q-1, R-4, S-2
In the context of the digital lending guidelines, RE stands for Regulated Entity, while LSP refers to a Lending Service Provider. DLA is the acronym for a Digital Lending App, which can be operated by either an RE or an LSP. NBFC stands for Non-Banking Financial Company. These terms define the key participants and tools involved in the regulated digital lending ecosystem.

95. (A) Unregulated Peer-to-Peer Foreign Lenders
The September 2022 digital lending guidelines were issued specifically to Regulated Entities (REs) such as commercial banks, state co-operative banks, and non-banking financial companies. These institutions are under the direct oversight of the central bank. Unregulated peer-to-peer foreign lenders are not included as recipient entities, as the guidelines are designed to govern the activities and outsourcing arrangements of domestically regulated financial institutions.

96. (B) No; outsourcing does not diminish RE obligations and compliance must be ensured.
Under central bank guidelines, the responsibility for regulatory compliance remains solely with the Regulated Entity (RE), even when tasks are outsourced to a Lending Service Provider. Outsourcing does not diminish the RE's obligations to its customers or the regulator. Therefore, REs must ensure that their partners and any associated Digital Lending Apps strictly adhere to all relevant rules and ethical standards.

97. (A) REs must ensure that all DLAs, whether internal or from an LSP, comply with guidelines.
Regulated Entities (REs) carry the ultimate responsibility for ensuring that all Digital Lending Apps (DLAs) used in their operations comply with regulatory guidelines. This obligation applies whether the app is developed internally or provided by a third-party Lending Service Provider (LSP). REs are not absolved of liability through outsourcing and must actively monitor their partners to ensure full compliance and consumer protection.

98. (B) Apply new instructions, as they cover fresh loans for existing customers.
According to the digital lending guidelines issued on September 02, 2022, the new instructions are immediately applicable to all fresh loans. This includes fresh loans sanctioned to existing customers from the date of the circular. Therefore, a bank must ensure that any new credit application processed after the issuance follows the updated framework, regardless of the customer's previous history with the institution.

99. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Regulated Entities (REs) are required to ensure that their Lending Service Providers and Digital Lending Apps adhere to all digital lending guidelines. This is because entering into an outsourcing arrangement does not reduce or transfer the RE's regulatory obligations. The RE remains fully accountable for the conduct of its partners and must maintain strict oversight to ensure compliance with the central bank's standards.

100. (C) The bank has until November 30, 2022, to ensure these loans meet guidelines.
For digital loans that were already in existence when the September 02, 2022, circular was issued, the central bank provided a transition period. Regulated entities, including state co-operative banks, were given until November 30, 2022, to update their systems and processes. This allowance ensures that all existing digital loans are eventually brought into compliance with the new guidelines in both letter and spirit.

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CHAPTER 09
Fiscal-Monetary Relations

May/June 2016

1. Consider the following statements regarding the monetary-fiscal landscape in India up to the 1980s:

I. The growth rate in the Indian economy remained quite low at around 3 per cent.

II. The accommodative monetary policy strengthened the Reserve Bank of India's primary objective of maintaining price stability.

Which of the above statement(s) is/are correct?

(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2009

2. An economist is reviewing long-term macroeconomic data to understand the growth-inflation dynamic. To get a clearer picture of structural shifts, the economist decides to exclude the slowest-growing sector from the analysis. Which sector is removed to make the contrast in the growth-inflation balance even more striking?

(A) Industry
(B) Services
(C) Agriculture
(D) Manufacturing

May/June 2023

3. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The extraordinary level of fiscal stimulus provided in 2008-09 and 2009-10 to meet the impact of the global economic crisis has no implications for inflation management.

Reason (R): A gradual exit plan is in the offing which should enable the attainment of Medium Term Fiscal Targets.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

4. A state government intends to undertake a massive infrastructure upgrade and requires net market borrowing amounting to 4.5 per cent of its GSDP for the year 2021-22. According to the 15th Finance Commission's recommendations, what specific condition must the state fulfill to achieve this flexibility beyond the standard 4 per cent limit?

(A) Abolishing the consolidated sinking fund
(B) Implementing a faceless assessment scheme for state taxes
(C) Fulfilling power sector reforms
(D) Monetizing all unused public real estate assets

May/June 2007

Identify the incorrect statement regarding the conduct of monetary policy and fiscal coordination.

(A) Monetary expansion must be in line with the productive capacity of the country.
(B) Credit flows should be directed into speculative activities to maximize short-term growth.
(C) Passing the FRBM Act stipulated a ceiling on public debt.
(D) Greater coordination has been achieved between fiscal and monetary authorities over the years.

Oct/Nov 2025

6. Based on the Fiscal Package Announced by the Union Government, identify the correct statement regarding the amount allocated for the PMGKP Anna Yojana Extension.

(A) The allocated amount is ₹15,000 crore.

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(B) The allocated amount is ₹82,911 crore.
(C) The allocated amount is ₹7,800 crore.
(D) The allocated amount is ₹73,000 crore.

May/June 2012

7. According to Robert Barro, what is the threshold rate of inflation below which optimal economic growth is possible?
(A) 5 per cent
(B) 6 per cent
(C) 7 per cent
(D) 8 per cent

Oct/Nov 2014

8. Identify the correct statement regarding the monetary tools utilized during the 2009-11 period to control high inflation.
(A) The central bank exclusively utilized Market Stabilization Bonds to control inflation.
(B) The Repo rate was the sole monetary tool available and was changed more than 10 times.
(C) Automatic monetization was reintroduced to anchor inflation expectations.
(D) The central bank completely halted credit flows to the productive sectors of the economy.

May/June 2019

9. Identify the incorrect statement regarding the strategies for improving tax buoyancy as per the Union Budget 2021-22.
(A) The budget aims at better compliance through the use of data analytics and artificial intelligence.
(B) Improving tax buoyancy is primarily reliant on the imposition of additional taxation.
(C) The scope of faceless assessment has been broadened by bringing all pending assessment cases within its purview.
(D) Buoyancy of tax revenue is expected to support an increase in capital outlay.

Oct/Nov 2006

10. Which of the following is the most appropriate description of the Reserve Bank of India's move to refine its tools of supervision and regulation beyond traditional monetary management?
(A) Facilitating automatic monetization for funding deficits
(B) Creating a mechanism for the National Infrastructure Pipeline
(C) Prioritizing financial stability amidst global uncertainties
(D) Using financial repression to lower government debt costs

May/June 2021

11. A mid-sized manufacturing unit faces severe cash flow constraints due to the pandemic-induced lockdown. The government announces a stimulus package specifically targeting liquidity support through government guarantees and low-interest rate loans to MSMEs to help keep them afloat. Which specific package provides this relief?
(A) Pradhan Mantri Garib Kalyan Package
(B) AatmaNirbhar Bharat Abhiyan 2.0
(C) AatmaNirbhar Bharat Abhiyan 3.0
(D) AatmaNirbhar Bharat Abhiyan 1.0

Oct/Nov 2010

12. The Central Government expands its role in the economy and begins to face massive fiscal deficits. To finance these deficits, it relies on an instrument with a maturity of 3 months issued to the central bank. Which instrument is being utilized to meet this resource gap?
(A) Market Stabilization Bonds
(B) Sovereign Gold Bonds
(C) Ad hoc Treasury Bills
(D) Ways and Means Advances

May/June 2005

13. Consider the following statements based on Subir Gokaran's study on the growth-inflation balance:
I. A steady upward movement in the growth rate has been accompanied by a steady downward movement in the inflation rate.
II. The contrast in the data becomes less striking when the agricultural sector is removed from the growth calculations.
III. The evidence suggests that accelerating growth is accompanied by decelerating inflation.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

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from 2021-22 to 2024-25. The FC-15 allows an additional allowance of 0.5 per cent over the normal net borrowing limit. What specific action must the state's power distribution companies (DISCOMs) take to unlock this incentive?
(A) Increase their reliance on ad hoc treasury bills
(B) Transition completely to non-renewable energy sources
(C) Show improvement in operational and financial performance
(D) Monetize all their distribution grid assets

May/June 2010

65. In the context of the inter se distribution of taxes among states (horizontal sharing), what fundamental conceptual approach has dominated in determining the share of individual states since the Eighth Finance Commission (FC-8)?
(A) Equity-based criteria, thereby making the tax devolution progressive
(B) Uniform per capita allocation across all states regardless of income
(C) Strict adherence to the tax effort criterion excluding demographic factors
(D) Proportional distribution based solely on the geographic area of the state

Oct/Nov 2024

66. Consider the following detailed fiscal roadmap indicators recommended by the 15th Finance Commission:
I. Restructuring of FRBM and timetable for achieving debt sustainability to be examined by a high powered inter-departmental group.
II. Projected debt-GDP ratio of 56.6 per cent in 2025-26, after peaking at 62.9 per cent in 2021-22.
III. Normal limit of net borrowings for states to be 3.5 per cent in 2022-23.
IV. Normal limit of net borrowings for states to be 3 per cent of GSDP from 2023-24 to 2025-26.
V. Incentive based additional borrowings of 1.5 per cent of GSDP from 2021-22 to 2024-25.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, IV, and V only

May/June 2017

67. Consider the following statements regarding the Fifteenth Finance Commission (FC-15):
I. It was constituted on 27 November 2017 to make recommendations for the period 2021-26.
II. Shri N.K. Singh was appointed as the Chairman of the Commission.
III. The full report covering the period 2021-26 was submitted on November 9, 2020.
IV. The report was placed before the Parliament on February 1, 2021.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2005

68. Identify the incorrect statement regarding the tax effort criterion in the context of Finance Commission recommendations.
(A) The tax effort criterion was re-introduced by the 15th Finance Commission.
(B) It was continuously used without interruption by the 13th and 14th Finance Commissions.
(C) It was previously used by the 10th, 11th, and 12th Finance Commissions.
(D) It is considered one of the major changes in the horizontal sharing criteria of FC-15.

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May/June 2020

69. A state government faces sudden financial liabilities because a state-owned enterprise defaulted on a massive loan that the state had guaranteed. To safeguard its immediate fiscal stability without derailing the budget, the state draws funds from a dedicated reserve. Which institutional measure, originally recommended by FC-12, allows the state to manage this crisis?
(A) Guarantee Redemption Fund
(B) Consolidated Sinking Fund
(C) National Small Savings Fund
(D) Market Stabilization Scheme

Oct/Nov 2015

70. A constitutional expert is analyzing the historical progression of tax devolution in India. The expert notes a pivotal shift where all union

May/June 2009

21. Identify the incorrect statement regarding the fiscal packages and their announced amounts in ₹ crore.
(A) Revenue Loss due to Tax Relief Measures — 7,800
(B) AatmaNirbhar Bharat Abhiyan 3.0 — 2,65,080
(C) PM's Health Package — 73,000
(D) Pradhan Mantri Garib Kalyan Package — 1,70,000

Oct/Nov 2011

22. Financial repression in the Indian economy prior to the 1980s was primarily a consequence of:
(A) Sudden influx of foreign capital into the service sector
(B) Monetization of debt with artificially low interest rates
(C) Strict adherence to the FRBM Act's fiscal deficit caps
(D) RBI's refusal to renew Ad hoc Treasury Bills for states

May/June 2010

23. Consider the following statements regarding initiatives to impart greater autonomy and independence to the central bank:
I. Putting an end to automatic monetization.
II. Stipulating a ceiling on public debt by passing the FRBM Act.
III. Increasing the issuance of Ad hoc Treasury Bills to fund fiscal deficits.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2024

24. Consider the following statements regarding the measures taken by the Reserve Bank to assist state finances affected by COVID-19:
I. The limits for ways and means advances (WMA) were increased by 60 per cent in April 2020.
II. The number of days for overdraft (OD) was decreased to enforce stricter fiscal discipline.
III. Rules governing withdrawal from the consolidated sinking fund (CSF) were relaxed.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

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May/June 2017

25. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The study by Subir Gokaran provides evidence that there is a long-term trade-off between growth and inflation in the Indian economy.
Reason (R): Relating decadal averages of growth and inflation over past decades indicates that a steady upward movement in the growth rate has been accompanied by a steady downward movement in the inflation rate.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

26. Harmonization of monetary and fiscal policies is considered a prerequisite for attaining which of the following twin objectives?
(A) High interest rates and capital accumulation
(B) Financial repression and sovereign wealth generation
(C) Debt sustainability and unlimited market borrowing
(D) Price stability and economic growth

May/June 2020

27. Consider the following statements detailing the economic reform measures announced by the Union Government in the wake of the pandemic:
I. The Pradhan Mantri Garib Kalyan Package focused on free foodgrains and direct benefit transfers.
II. The AatmaNirbhar Bharat Abhiyan 1.0 focused on providing liquidity support to MSMEs, NBFCs, MFIs, and DISCOMs.
III. Leave travel concession (LTC) cash voucher

Oct/Nov 2022

14. Monetary policy formulation assumes paramount importance in containing inflation by ensuring that:
(A) Capital inflows are converted into sovereign debt securities
(B) The central bank accommodates government financing needs
(C) Aligning money supply with productive economic capacity
(D) The threshold rate of inflation is kept above 10 per cent

May/June 2018

15. Match the fiscal packages (List I) with their corresponding allocated amounts in ₹ crore (List II).
List I: (Fiscal Package)
P. Pradhan Mantri Garib Kalyan Package
Q. PM's Health Package
R. AatmaNirbhar Bharat Abhiyan 1.0
S. AatmaNirbhar Bharat Abhiyan 2.0
List II: (Allocated Amount in ₹ crore)
1. 11,02,650
2. 15,000
3. 73,000
4. 1,70,000
(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-3, R-4, S-2
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-4, R-3, S-1

Oct/Nov 2016

16. Automatic monetization is defined as the practice where the Reserve Bank of India:
(A) Automatically renews Ad hoc Treasury Bills for the Government
(B) Purchases gold to stabilize national reserves and liquidity
(C) Directs benefit transfers to help various vulnerable groups
(D) Adjusts the Repo rate to hit specific inflation benchmarks

May/June 2014

17. Which of the following is NOT a feature or component of the financial assistance provided to states during the pandemic and 2021-22?
(A) Mandating states to exclusively borrow from the National Small Savings Fund (NSSF)
(B) ₹15,000 crore allocated under the 'Special Assistance to States for Capital Expenditure'
(C) Interest-free 50-year loans for capital expenditure
(D) ₹11,830 crore released as part of the Aatma Nirbhar Bharat package in 2020-21

Oct/Nov 2007

18. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): An accommodative monetary policy inevitably leads to inflationary pressures in the economy.
Reason (R): It involves the central bank bridging the resource gap of the Government by monetizing debt and keeping interest rates artificially low for government securities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

19. What is the designated capital base for the Development Financial Institution (DFI) announced in the Union Budget 2021-22 to finance projects under the National Infrastructure Pipeline?
(A) ₹10,000 crore
(B) ₹15,000 crore
(C) ₹20,000 crore
(D) ₹25,000 crore

Oct/Nov 2019

20. Identify the correct pair regarding the mechanism used to manage excess liquidity.
(A) Market Stabilization Bonds — Curbing liquidity-driven inflation
(B) Automatic Monetization — Absorbing excessive capital inflows
(C) Accommodative Policy — Raising yields on government securities
(D) Ad hoc Treasury Bills — Sterilizing foreign exchange markets

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and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

34. While the Constitution provides for the establishment of the Finance Commission, which of the following is NOT true regarding the regulation of its qualifications, powers, and procedures?
(A) Regulated by the FC (Miscellaneous Provisions) Act 1951
(B) The commissions are appointed for a fixed 5-year period
(C) Deemed civil courts for the Code of Criminal Procedure
(D) Regulated directly by the FRBM Act's institutional targets

May/June 2008

35. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): In 2021-22, the counter-cyclical fiscal support to the economy is maintained through an increase in capital expenditure, despite revenue expenditure seeing some contraction over 2020-21 (RE).
Reason (R): The sizeable deviation in the gross fiscal deficit necessitated a quantum jump in reliance on Ad hoc Treasury Bills.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

36. A State Finance Commission is reviewing the financial health of local bodies. It adopts the criteria used by earlier Union Finance Commissions to ensure equity in the distribution of resources among various underdeveloped districts. Which set of criteria originally developed by the Union Finance Commission is being applied here?
(A) Income distance, forest cover, and demographic factors
(B) Export performance, credit rating, and urban density
(C) Disinvestment receipts and asset monetisation targets
(D) Capital adequacy and non-performing asset provisions

May/June 2015

37. Match the phases of the AatmaNirbhar Bharat Abhiyan (List I) with their primary features or components (List II).
List I: (Phase)
P. AatmaNirbhar Bharat Abhiyan 1.0
Q. AatmaNirbhar Bharat Abhiyan 2.0
R. AatmaNirbhar Bharat Abhiyan 3.0
S. Pradhan Mantri Garib Kalyan Package
List II: (Component)
1. Free foodgrains to the poor and direct benefit transfers
2. Leave travel concession (LTC) cash voucher scheme
3. Liquidity support to NBFCs, HFCs, and DISCOMs
4. Equity infusion in the National Investment and Infrastructure Fund (NIIF)
(A) P-3, Q-2, R-4, S-1
(B) P-4, Q-1, R-3, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2012

38. Consider the following statements regarding the typical fiscal response of states to COVID-19 and its impact on their finances:
I. Spendings and revenue shortfalls are likely to convert budgeted revenue surpluses in 2020-21 into deficits.
II. States tend to cut back their capital expenditure by almost 0.5 per cent of GDP on average to meet FRL targets.
III. States were able to start massive capital expenditure in H1 because of the lockdown and monsoons.
IV. Going forward, states are likely to increase capex through investments in healthcare, social housing, and education.
V. Significant cuts in capex by states may counteract the growth impact of the capex

NODIA

push by the centre.

Which of the above statement(s) is/are correct?

(A) I, II, IV, and V only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, and IV only

May/June 2011

39. A state government has been experiencing sustained stress on its revenue front over the past financial year. As it prepares its budget for 2021-22, the state anticipates a specific form of support recommended by the Fifteenth Finance Commission that is slated to rise during the award period. Which mechanism will provide this much-needed support?

(A) Increased allocation from the National Small Savings Fund
(B) Higher issuance of Market Stabilization Bonds
(C) Expanded access to external commercial borrowings
(D) Grants from the Centre

Oct/Nov 2020

40. Match the Central Government's Fiscal Performance indicators (List I) with their respective values as a percentage of GDP for 2021-22 (BE) (List II).

List I: (Indicator)

P. Non-debt Receipts
Q. Gross Tax Revenue
R. Direct Tax
S. Indirect Tax

List II: (Value as % of GDP)

1. 9.9
2. 5.0
3. 8.9
4. 5.0

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-3, R-4, S-1

May/June 2022

41. Identify the correct pair representing the criteria developed by early Finance Commissions to bring underdeveloped states onto the growth path and ensure equity in resource distribution.

(A) Progressive Devolution — WMA limits and overdraft days
(B) Equity Criteria — Per capita income and forest cover
(C) Performance Criteria — Disinvestment and MSB issuance
(D) Tax Effort Criteria — NSSF and Consolidated Sinking Fund

Oct/Nov 2023

42. The Union Budget 2021-22 set the stage for strong economic revival. What conceptual approach was heavily relied upon to achieve increased tax buoyancy without imposing new taxes?

(A) Increasing indirect tax rates across all industrial sectors
(B) Re-introducing automatic monetization of the fiscal deficit
(C) Using data analytics and AI for better tax compliance
(D) Monetizing external commercial borrowings to raise revenue

May/June 2016

43. What is the most appropriate reason provided for the states' inability to commence significant capital expenditure (capex) during the first half (H1) of the financial year?

(A) Exhaustion of the consolidated sinking fund limits
(B) Combined impact of the Q1 lockdown and Q2 monsoons
(C) Strict conditions of the FRBM Act on infrastructure
(D) Directive from the Finance Commission to halt capex

Oct/Nov 2009

44. Given the sizeable deviation in the gross fiscal deficit in 2020-21 and 2021-22, which of the following remains the most appropriate and primary source of financing the deficit for the Union Government?

(A) Access to the National Small Savings Fund (NSSF)
(B) Issuance of Market Stabilization Bonds (MSBs)
(C) Ways and Means Advances from the RBI
(D) Market borrowings

May/June 2023

45. Consider the following functions of the Finance Commission required to be recommended to the President of India:

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I. The distribution of net proceeds of taxes to be shared between the Centre and the States.
II. The allocation of the respective share of each State in such tax proceeds.
III. The principles governing the grants-in-aid by the Centre to States out of the Consolidated Fund of India.
IV. The direct administration of the Consolidated Sinking Fund of all states.
V. Measures needed to augment the Consolidated Fund of a State to supplement resources of Panchayats and Municipalities based on State Finance Commission recommendations.

Which of the above statement(s) is/are correct?
(A) I, II, III, and V only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2018

46. Which of the following is NOT a component of the Aatma Nirbhar Bharat Abhiyan 3.0?
(A) Additional outlay for Pradhan Mantri Awas Yojana - Urban
(B) Paying both employee and employer contribution to provident fund corpuses for organised sector workers
(C) Equity infusion in the National Investment and Infrastructure Fund
(D) Production-linked incentive scheme for 10 identified sectors

May/June 2007

47. The Finance Commission is established for the purpose of allocating certain resources of revenue between the Union and the State Governments. Under which Article of the Constitution of India is it established?
(A) Article 112
(B) Article 280
(C) Article 360
(D) Article 268

Oct/Nov 2025

48. A private infrastructure development firm is looking for new investment opportunities. The firm learns about the central government's plan to unlock value in underutilised public assets to generate new sources of revenue. What is the estimated investment opportunity value projected over a period of time from this monetisation pipeline?
(A) ₹1.5 lakh crore
(B) ₹2.0 lakh crore
(C) ₹2.5 lakh crore
(D) ₹3.5 lakh crore

May/June 2012

49. Identify the correct statement regarding State Finances in 2021-22 based on the information available for 17 state governments.
(A) The GFD budgeted at 3.2 per cent of GSDP is in line with the Fifteenth Finance Commission's recommendation on the revised fiscal roadmap.
(B) The Gross Fiscal Deficit has been budgeted at 4.1 per cent of GSDP, higher than the previous year.
(C) State finances are experiencing massive surpluses on the revenue front without the need for grants.
(D) Consolidation over the previous year is sought to be achieved primarily by hiking revenue expenditure and cutting capex.

NODIA

Oct/Nov 2014

50. Identify the incorrect statement regarding the provisional accounts (PA) for states during the first half (H1) of 2020-21.
(A) GFD-GDP ratio of 3.8 per cent, above the 2.8 per cent estimate
(B) Revenue receipts contracted until September due to lockdown
(C) Sustained exponential growth in expenditure for the whole year
(D) Initial expenditure hikes offset by dearness allowance freezes

May/June 2019

51. Who was the Chairman of the first Finance Commission (FC-1) appointed by the President of India in 1951?
(A) K. Santhanam
(B) A.K. Chanda
(C) P.V. Rajamannar
(D) K.C. Neogy

Oct/Nov 2006

52. Consider the following statements regarding the initiatives in the Central Government Budget 2021-22:
I. Tax buoyancy improvement is not reliant on

additional taxation.
II. The scope of faceless assessment has been broadened to include all pending assessment cases.
III. The new public sector enterprise policy aims to maximize the presence of central public sector enterprises across all sectors.
IV. An asset monetisation pipeline of 100 government-owned assets is planned to bring in investment opportunities of ₹2.5 lakh crore.
V. In non-strategic sectors, CPSEs will be either privatised or closed.

Which of the above statement(s) is/are correct?
(A) I, II, III, and V only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2021

53. According to the Central Government's Fiscal Performance data, what was the Gross Fiscal Deficit as a per cent of GDP in the Budget Estimates (BE) for the year 2021-22?
(A) 9.4
(B) 6.8
(C) 7.4
(D) 5.1

Oct/Nov 2010

54. Consider the following key indicators for State Government Finances in 2021-22 (BE) as a per cent of GSDP:
I. The Revenue Deficit is budgeted at 0.3 per cent.
II. The Gross Fiscal Deficit is budgeted at 4.1 per cent.
III. The Primary Deficit is budgeted at 1.5 per cent.
IV. The Gross Fiscal Deficit in 2020-21 (RE) was 4.1 per cent.

Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2005

55. Consider the following statements regarding state capital expenditure behaviors:
I. States have a tendency to cut back their capital expenditure on an average to meet fiscal responsibility legislation (FRL) prescribed deficit targets.
II. A significant cut in capex by states, driven by funding constraints, operates in tandem with and amplifies the growth impact of the capex push of the centre.
III. In 2020-21, a similar tendency to cut capex relative to provisional accounts is observed.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2022

56. A sovereign rating agency is evaluating the Union Government's revised expenditure estimates for 2020-21. The agency notes a sharp increase in total expenditure partly driven by a shift in accounting practices regarding food subsidies. Which specific action caused this increase in expenditure?
(A) Budgeting FCI loans from the NSSF as government expenditure
(B) Complete waiver of all state government market borrowings
(C) Exclusion of state governments from NSSF operations
(D) Shifting the Health Package funds into the sinking fund

May/June 2018

57. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Finance Commissions in India are deemed to be civil courts for the purposes of the Code of Criminal Procedure 1898.
Reason (R): Their qualifications, powers, and procedures are regulated by the Finance Commission (Miscellaneous Provisions) Act 1951.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2016

58. Match the Central Government's Fiscal Performance indicators (List I) with their respective values as a percentage of GDP for 2021-22 (BE) (List II).

List I: (Indicator)

P. Total Expenditure
Q. Capital Expenditure
R. Revenue Deficit
S. Gross Fiscal Deficit

List II: (Value as % of GDP)

1. 5.1
2. 2.5
3. 15.6
4. 6.8

(A) P-3, Q-2, R-1, S-4
(B) P-4, Q-1, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-3, S-1

May/June 2014

59. According to the budgetary data for 17 state governments for 2021-22, the targeted fiscal consolidation over the previous year is conceptually structured to be achieved primarily through which of the following combinations?

(A) Cutting capital expenditure while increasing revenue spending
(B) Relying on external borrowings to fund the revenue deficit
(C) Increasing revenue receipts while raising capital expenditure
(D) Using off-budget borrowings to hide the gross fiscal deficit

Oct/Nov 2007

60. A commercial bank is restructuring its investment portfolio due to a projected increase in sovereign bond yields. The bank's research department notes that the Union Government is expected to maintain capital expenditure at 2.5 per cent of GDP in 2021-22, leading to a sizeable gross fiscal deficit. What is the secondary source the government utilizes to finance this deficit, following market borrowings?

(A) Consolidated Sinking Fund
(B) Access to the National Small Savings Fund (NSSF)
(C) Guarantee Redemption Fund
(D) External Commercial Borrowings

May/June 2025

61. Match the Finance Commissions (List I) with their corresponding operational durations (List II).

List I: (Finance Commission)

P. FC(12)
Q. FC(13)
R. FC(14)
S. FC(15)

List II: (Operational Duration)

1. 2017-2022 / 2021-2026
2. 2015-2020
3. 2010-2015
4. 2005-2010

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-3, R-4, S-1

NODIA

Oct/Nov 2019

62. A municipal corporation is drafting its developmental budget for the next five years. The municipal commissioner notes that under the latest Finance Commission (FC-XV) recommendations, funding streams have structurally shifted. According to the compositional hierarchy of FC grants, which category holds the highest share, directly benefiting this municipal corporation?

(A) Grants to local bodies
(B) Post devolution revenue deficit grants
(C) Sector-specific grants for higher education
(D) State-specific grants for disaster management

May/June 2009

63. Which of the following is the correct chronological order of the operational durations of the following Finance Commissions?

I. FC(4)
II. FC(3)
III. FC(5)
IV. FC(2)

(A) IV, II, I, III
(B) IV, I, II, III
(C) II, IV, I, III
(D) I, II, III, IV

Oct/Nov 2011

64. A state government wishes to maximize its capital expenditure and requires additional borrowing space for the four-year period

scheme was part of Aatma Nirbhar Bharat Abhiyan 2.0.
IV. Production-linked incentive (PLI) scheme for 10 identified sectors was introduced in Aatma Nirbhar Bharat Abhiyan 3.0.
V. The total cumulative amount of the economic reform measures amounted to ₹20.5 lakh crore.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2015

28. Which of the following was NOT an outcome of the accommodative monetary policy adopted to bridge the Government's resource gap in plan financing?
(A) Strengthening of the primary objective of maintaining price stability
(B) Inflationary pressures in the economy
(C) Financial repression
(D) Maintenance of interest rates at artificially low levels for government securities

May/June 2013

29. Consider the following statements concerning the fiscal consolidation path outlined by the central government:
I. The gross fiscal deficit is budgeted at 6.8 per cent of GDP in 2021-22.
II. The fiscal consolidation path aims to bring the gross fiscal deficit down gradually to below 4.5 per cent of GDP by 2025-26.
III. Increased buoyancy of tax revenue and receipts from asset monetisation are expected to support capital outlay.
IV. States have budgeted a consolidation in the GFD at around 4.5 per cent in 2021-22.

Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2021

30. A country experiences a sudden surge in foreign investments, leading to excessive capital inflows that the domestic economy cannot readily absorb through productive channels. To curb resulting inflationary pressures, the central bank intervenes. Which specific instrument is introduced to immobilize these excessive flows?
(A) Ad hoc Treasury Bills
(B) Priority Sector Lending Certificates
(C) Development Financial Institution Bonds
(D) Market Stabilization Bonds

May/June 2024

31. The new public sector enterprise policy identifies four broad strategic areas where CPSEs will maintain a minimal presence. Which of the following is NOT one of those identified strategic areas?
(A) Atomic energy, space research, and national defence
(B) Power, petroleum, coal, and various other minerals
(C) Healthcare and pharmaceutical production facilities
(D) Transport, telecommunications, and logistics services

Oct/Nov 2008

32. A State Finance Secretary reviews the revenue receipts midway through the financial year and realizes a severe shortfall due to pandemic disruptions. To adhere to the state's fiscal responsibility legislation (FRL) deficit targets, the secretary proposes a budget adjustment. Based on typical historical behavior, what is the most likely target for this cutback?
(A) Deduction from existing employee salary and immediate suspension of all pensions
(B) Cutting back capital expenditure by almost 0.5 per cent of GDP on average
(C) Withdrawing fully from the Guarantee Redemption Fund
(D) Defaulting on the repayment of Ways and Means Advances

May/June 2006

33. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The total fiscal package announced by the Union Government does not reflect the true fiscal cost to the Government.
Reason (R): The total fiscal package includes below the line items like liquidity support measures.
(A) Both Assertion (A) and Reason (R) are true,

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taxes, barring cesses and surcharges, were made shareable with the states, moving away from a regime where only excise duty and income tax were shareable. Which Finance Commission recommended this considerable widening of the base?
(A) Eighth Finance Commission (FC-8)
(B) Thirteenth Finance Commission (FC-13)
(C) Eleventh Finance Commission (FC-11)
(D) Fourteenth Finance Commission (FC-14)

May/June 2013

71. In analyzing the trajectory of the Debt/GDP ratio as projected by the 15th Finance Commission, which of the following represents the most appropriate expectation regarding its peaking behavior?
(A) The ratio will peak at 89.6 per cent in the year 2022-23 before declining.
(B) The ratio will continuously decline without peaking.
(C) The ratio will peak at 85.7 per cent in 2025-26.
(D) The ratio will peak at 62.9 per cent in 2021-22 and immediately stabilize.

Oct/Nov 2021

72. Match the Finance Commissions (List I) with their respective Chairmen (List II).
List I: (Finance Commission)
P. FC(6)
Q. FC(7)
R. FC(8)
S. FC(9)
List II: (Chairman)
1. N.K.P. Salve
2. Y.B. Chavan
3. J.M. Shellet
4. K. Brahmananda Reddy
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-4, Q-2, R-3, S-1

May/June 2024

73. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The FC-XV has brought back sector- and state-specific grants into its recommendations.
Reason (R): The Union Government has strictly mandated immediate disbursement of all these state-specific grants without linking them to centrally sponsored schemes.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. Consider the following statements concerning the significant changes made in the criteria for determining the share of individual states by the FC-15:
I. The population census basis was moved from 1971 to 2011.
II. To reward states that successfully brought down population growth, the commission completely eliminated any reference to the 1971 census.
Which of the above statement(s) is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2006

75. Consider the following targets recommended by the 15th Finance Commission regarding the fiscal road map:
I. GFD-GDP ratio glide path from 9.3 per cent in 2021-22 to 6.8 per cent in 2025-26.
II. Projected Debt/GDP ratio of 85.7 per cent in 2025-26 after peaking at 89.6 per cent in 2022-23.
III. In the baseline scenario, GFD-GDP ratio glide path from 6 per cent in 2021-22 to 4 per cent in 2025-26.
IV. Normal limit of net borrowings for states to be 4 per cent in 2021-22.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

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17. (A) Mandating states to exclusively borrow from the National Small Savings Fund (NSSF)
During the pandemic, the central government provided extensive financial support to states through various mechanisms. This included allocating ₹15,000 crore for capital expenditure and offering 50-year interest-free loans. Additionally, substantial funds were released under the AatmaNirbhar Bharat package in 2020-21. However, mandating states to borrow exclusively from the National Small Savings Fund was not a feature of these supportive measures.

18. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
An accommodative monetary policy often leads to significant inflationary pressures within an economy. This occurs because the central bank monetizes government debt to bridge resource gaps, while maintaining interest rates at artificially low levels for government securities. These actions increase the money supply beyond productive capacity, directly contributing to rising price levels and potentially causing long-term macroeconomic instability and financial repression.

19. (C) ₹20,000 crore
To support the National Infrastructure Pipeline, the Union Budget 2021-22 proposed the establishment of a specialized Development Financial Institution. This institution was designed to provide long-term debt financing for major infrastructure projects across the country. To ensure it had a strong foundation for its operations, the government designated a capital base of ₹20,000 crore for this new developmental entity.

20. (A) Market Stabilization Bonds — Curbing liquidity-driven inflation
When the economy faces excessive liquidity from capital inflows, the central bank uses specific tools to maintain stability. Market Stabilization Bonds are issued to absorb this surplus liquidity and curb resulting inflationary pressures. This mechanism helps sterilize the impact of foreign exchange interventions, ensuring that the domestic money supply does not expand uncontrollably and undermine the primary objective of price stability.

21. (C) PM's Health Package — 73,000
The fiscal response to the pandemic involved multiple packages with specific budgetary allocations. While the Pradhan Mantri Garib Kalyan Package was set at ₹1,70,000 crore and the AatmaNirbhar Bharat Abhiyan 3.0 at ₹2,65,080 crore, the Prime Minister's Health Package had a different valuation. It was actually allocated ₹15,000 crore, making the pair connecting it to ₹73,000 crore incorrect in this context.

22. (B) Monetization of debt with artificially low interest rates
Before the 1980s, the Indian economy experienced financial repression as a result of specific fiscal and monetary policies. The government frequently monetized its debt through the central bank, which kept interest rates on government securities at artificially low levels. This hindered the development of a market-determined interest rate structure and restricted the efficient allocation of capital across the broader economic landscape.

23. (A) I and II only
Several initiatives were undertaken to provide the central bank with greater autonomy and improve fiscal management. Key measures included ending the practice of automatic monetization and passing the FRBM Act to establish ceilings on public debt. These reforms aimed to prevent the government from relying on the central bank to fund deficits, thereby strengthening the independence of monetary policy formulation.

24. (B) I and III only
To support state finances during the pandemic, the Reserve Bank increased the limits for ways and means advances by 60 per cent. Furthermore, rules governing withdrawals from the consolidated sinking fund were relaxed to provide states with greater liquidity. However, the number of days for overdrafts was increased to provide additional flexibility, rather than decreased to enforce stricter discipline during this crisis.

25. (D) Assertion (A) is false, but Reason (R) is true.
Research on India's macroeconomic trends reveals that higher economic growth is consistently linked with lower inflation rates. Data indicates that as the economy accelerates,

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and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. Consider the following statements regarding the recommendations on the National Small Savings Fund (NSSF):
I. The FC-XIV recommended the mandatory inclusion of all state governments in NSSF operations.
II. The recommendation meant existing obligations on servicing and repayments to the NSSF had to be fulfilled despite the exclusion of state governments from new operations post April 1, 2015.
Which of the above statement(s) is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2016

85. Consider the following statements regarding the grants-in-aid recommended by the FC-XV:
I. It recommended a historically high share of grants in total transfers compared to its predecessor.
II. Post devolution revenue deficit grants have the highest share in finance commission grants compositionally.
III. Sector- and state-specific grants have been brought back, which were a regular feature till the FC-XIII.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2009

86. Match the Finance Commissions (List I) with their respective Chairmen (List II).
List I: (Finance Commission)
P. FC(2)
Q. FC(3)
R. FC(4)
S. FC(5)
List II: (Chairman)
1. Mahaveer Tyagi
2. P.V. Rajamannar
3. A.K. Chanda
4. K. Santhanam
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-3, R-4, S-1

May/June 2023

87. What is the fundamental purpose of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 as outlined in the institutional targets framework?
(A) To mandate the automatic monetization of fiscal deficits
(B) To establish discipline and improve management of funds
(C) To prevent the Government from using external borrowing
(D) To ensure the inflation threshold stays above 7 per cent

Oct/Nov 2018

88. Consider the following statements regarding the evolution of tax devolution recommendations by Finance Commissions:
I. FC-11 widened the base to include all union taxes, excluding cesses and surcharges.
II. Successive finance commissions after FC-11 have made increments in the devolution ratio.
III. FC-14 recommended a lower share to compensate for the abolition of the planning commission.
IV. FC-14 made tax devolution the primary vehicle for federal transfers.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, and IV only
(D) I, III, and IV only

May/June 2007

89. Match the institutional measures (List I) with the Finance Commission that recommended them (List II).
List I: (Institutional Measure)
P. Creation of a sinking fund for debt repayments
Q. Creation of a guarantee redemption fund

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Oct/Nov 2017

76. Which of the following is the correct chronological order of the appointment of the Finance Commission Chairmen listed below?
I. A.K. Chanda
II. K. Santhanam
III. P.V. Rajamannar
IV. Mahaveer Tyagi
(A) I, II, III, IV
(B) II, I, III, IV
(C) II, III, I, IV
(D) III, II, IV, I

May/June 2008

77. Consider the following statements regarding the fiscal deficit targets set by the FC-15:
I. The gross fiscal deficit (GFD) for the Union Government is recommended on an elevated path.
II. The terminal year (2025-26) target for the Union Government's GFD is strictly fixed at exactly 3.0 per cent of GDP.
Which of the above statement(s) is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2013

78. Identify the incorrect pair connecting the Finance Commission to its year of establishment.
(A) FC(6) — 1972
(B) FC(8) — 1983
(C) FC(11) — 1992
(D) FC(14) — 2013

May/June 2015

79. Identify the correct statement regarding the historical debt and deficit target recommendations by successive finance commissions.
(A) Urged expansion of revenue deficits to drive GDP growth
(B) Recommended eliminating revenue deficits at both levels
(C) Mandated limiting the fiscal deficit to 5% of the GDP
(D) Opposed institutional changes to keep the policy opaque

Oct/Nov 2012

80. State 'X' implemented aggressive family planning and social welfare programs between 1971 and 2011, drastically reducing its total fertility rate (TFR). During the horizontal sharing of taxes under the FC-15 framework, State 'X' fears it might lose out due to the shift to the 2011 population census. Which specific criterion acts as a reward to protect and benefit State 'X' for its success?
(A) Income distance criterion
(B) Forest cover criterion
(C) Tax effort criterion
(D) Demographic performance criterion

May/June 2011

81. According to the Fiscal Road Map recommended by the 15th Finance Commission, what is the projected Debt/GDP ratio for the year 2025-26?
(A) 89.6 per cent
(B) 85.7 per cent
(C) 62.9 per cent
(D) 56.6 per cent

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Oct/Nov 2020

82. Match the Finance Commissions (List I) with their respective Chairmen (List II).
List I: (Finance Commission)
P. FC(10)
Q. FC(11)
R. FC(12)
S. FC(13)
List II: (Chairman)
1. C. Rangarajan
2. Vijay Kelkar
3. K.C. Pant
4. A.M. Khusro
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

May/June 2022

83. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): The increase in the tax devolution ratio recommended by successive Finance Commissions did not translate into a commensurate rise in the devolved taxes.
Reason (R): There has been a proliferation of cesses and surcharges that are excluded from the divisible pool of union taxes.
(A) Both Assertion (A) and Reason (R) are true,

(D) It stood at ₹5.25 lakh crore.

Oct/Nov 2010

96. A macroeconomist is modeling the future fiscal deficit trajectory of the country based on the 15th Finance Commission's 'baseline scenario'. Under this specific baseline projection, what is the expected GFD-GDP ratio glide path starting from 2021-22 to the terminal year 2025-26?
(A) From 9.3 per cent down to 6.8 per cent
(B) From 6 per cent down to 4 per cent
(C) From 6.8 per cent down to 4.5 per cent
(D) From 4 per cent down to 3 per cent

May/June 2005

97. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): Harmonization of monetary and fiscal policies is considered optional for attaining the twin objectives of growth and stability in modern economies.
Reason (R): Economic literature corroborates that high inflation levels are inimical to growth, necessitating policy co-ordination to ensure price stability.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

98. Identify the incorrect statement regarding the projected debt ratios recommended by the 15th Finance Commission.
(A) The overall projected Debt/GDP ratio is expected to peak at 89.6 per cent in 2022-23.
(B) The projected debt-GDP ratio is expected to reach an all-time high of 95 per cent by 2025-26.
(C) After peaking, the overall projected Debt/GDP ratio is targeted to be 85.7 per cent in 2025-26.
(D) Another projected debt-GDP metric expects a ratio of 56.6 per cent in 2025-26.

May/June 2018

99. A state is projecting its financial resources for the period 2023-24. Under normal circumstances, its net borrowing limit is restricted to 3 per cent of its GSDP. However, by strictly adhering to performance metrics in its power sector, it seeks additional funds. What is the maximum total net borrowing limit (as a percentage of GSDP) this state can achieve for that year inclusive of the incentive?
(A) 3.0 per cent
(B) 3.5 per cent
(C) 4.0 per cent
(D) 4.5 per cent

Oct/Nov 2016

100. The Union Government recognizes that pandemic-induced borrowing has disrupted its long-term debt sustainability targets set under the FRBM Act. Following the recommendations of the 15th Finance Commission, how is the government advised to proceed with establishing a new timetable for achieving debt sustainability?
(A) By adopting the 3% GFD target in the next fiscal cycle
(B) By leaving the task exclusively to the Reserve Bank
(C) By deferring compliance until GDP growth is higher
(D) By examining the path via an inter-departmental group

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R. Exclusion of state governments from NSSF operations
S. Significant relaxations in the fiscal deficit and debt targets due to pandemic

List II: (Recommending Body)
1. FC-14
2. FC-15
3. FC-12
4. FC-13

(A) P-3, Q-3, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2025

90. What is the definition of the newly introduced "demographic performance" criterion by the 15th Finance Commission?
(A) Inverse TFR (2011) multiplied by population (1971)
(B) Ratio of a state's 2011 population to 1971 population
(C) TFR (2011) multiplied by a state's geographical area
(D) Difference between 1971 birth and 2011 death rates

May/June 2012

91. Based on fundamental macroeconomic principles, which of the following is the most appropriate description of the impact of high inflation levels on an economy?
(A) High inflation levels consistently optimize economic growth
(B) High inflation levels are inimical to growth beyond a certain threshold
(C) High inflation facilitates eliminating the revenue deficit
(D) High inflation permits states to exceed the borrowing cap

Oct/Nov 2014

92. Consider the following statements regarding the normal limits of net borrowings for states as recommended by the 15th Finance Commission:
I. The limit is set at 4 per cent for 2021-22 and steps down to 3.5 per cent in 2022-23.
II. The limit stabilizes at 3 per cent of GSDP for the remaining period from 2023-24 to 2025-26.

Which of the above statement(s) is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2019

93. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.

Assertion (A): The 15th Finance Commission has mandated immediate, unilateral amendments to the FRBM Act to reflect new pandemic realities without further consultation.

Reason (R): The restructuring of the FRBM and the timetable for achieving debt sustainability is to be examined by a high-powered inter-departmental group.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

94. A developing country's central bank and finance ministry are currently experiencing an inflation rate of 9 per cent alongside sluggish economic expansion. The central bank governor references the findings of Robert Barro to argue for a change in policy direction. What immediate goal must the country target to optimize its economic growth based on this theoretical framework?
(A) Push the inflation rate above 10 per cent to stimulate demand
(B) Implement automatic monetization to bridge the resource gap immediately
(C) Bring the inflation rate below the threshold of 7 per cent
(D) Maintain the status quo as inflation and growth have no long-term trade-off

May/June 2021

95. Based on the aggregate Fiscal Position of States, identify the correct statement regarding the aggregate Fiscal Deficit for the year 2020-21 (BE).
(A) It stood at ₹6.26 lakh crore.
(B) It stood at ₹4.63 lakh crore.
(C) It stood at ₹5.54 lakh crore.

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inflationary pressures that emerged following the global economic crisis recovery.

9. (B) Improving tax buoyancy is primarily reliant on the imposition of additional taxation.
The Union Budget 2021-22 focused on improving tax buoyancy through modern methods rather than imposing new taxes. Strategies include utilizing data analytics and artificial intelligence to enhance compliance and broadening the scope of faceless assessments. By focusing on efficiency and technology, the government expects revenue to grow, which in turn supports a significant increase in national capital outlay.

10. (C) Prioritizing financial stability amidst global uncertainties
The Reserve Bank of India has evolved its regulatory framework to address complex challenges within the modern financial system. Beyond traditional monetary management, the central bank now emphasizes maintaining financial stability, especially during periods of global uncertainty. This refined approach involves utilizing diverse supervisory tools to monitor risks and ensure that the domestic banking and financial infrastructure remains resilient against external shocks.

11. (D) AatmaNirbhar Bharat Abhiyan 1.0
To support small businesses during the pandemic, the government introduced specialized liquidity measures under the first phase of the AatmaNirbhar Bharat Abhiyan. This package provided government guarantees and low-interest loans to micro, small, and medium enterprises facing cash flow constraints. These targeted interventions were designed to keep businesses afloat and protect livelihoods during the economic disruptions caused by the national lockdown.

12. (C) Ad hoc Treasury Bills
Historically, when the central government faced significant fiscal deficits, it relied on specific short-term debt instruments issued to the central bank. These instruments, known as Ad hoc Treasury Bills, typically had a maturity of three months and were used to bridge resource gaps. This practice allowed for the automatic monetization of deficits, though it was eventually discontinued to improve fiscal discipline.

13. (C) I and III only
Research on India's macroeconomic trends reveals that higher economic growth is consistently linked with lower inflation rates. Data indicates that as the economy accelerates, the inflation rate tends to move downward, suggesting no long-term trade-off between the two. However, the contrast in this growth-inflation balance becomes even more striking, rather than less, when the agricultural sector is removed from the analysis.

14. (C) Aligning money supply with productive economic capacity
Monetary policy formulation plays a vital role in containing inflation by managing the liquidity within the economy. Its primary goal is to ensure that the money supply remains in alignment with the country's productive economic capacity. By preventing excessive expansion that outpaces production, the central bank can maintain price stability and create a conducive environment for sustainable and long-term economic growth.

15. (A) P-4, Q-2, R-1, S-3
The Indian government launched several fiscal packages to address economic challenges, each with specific funding allocations. The Pradhan Mantri Garib Kalyan Package received ₹1,70,000 crore, while the Prime Minister's Health Package was allocated ₹15,000 crore. Furthermore, the AatmaNirbhar Bharat Abhiyan versions 1.0 and 2.0 were assigned ₹11,02,650 crore and ₹73,000 crore respectively to support diverse sectors and enhance domestic liquidity.

16. (A) Automatically renews Ad hoc Treasury Bills for the Government
Automatic monetization occurred when the central bank routinely renewed short-term debt instruments known as Ad hoc Treasury Bills for the government. This practice allowed the state to bridge its resource gaps without immediate market borrowing. However, it often compromised the central bank's independence and led to inflationary pressures, eventually resulting in the discontinuation of this mechanism to ensure better fiscal discipline.

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cost. This distinction is crucial for understanding the true budgetary impact of the various economic relief measures.

34. (D) Regulated directly by the FRBM Act's institutional targets
The Finance Commission's qualifications, powers, and procedures are regulated by the Finance Commission (Miscellaneous Provisions) Act of 1951. While the commission is appointed for a fixed five-year period and is deemed a civil court under legal codes, its internal operations are not directly regulated by the FRBM Act's institutional targets. Instead, it operates based on its specific constitutional mandate and legal framework.

35. (C) Assertion (A) is true, but Reason (R) is false.
In 2021-22, the government maintained counter-cyclical fiscal support by increasing capital expenditure despite a contraction in revenue spending. This strategy aimed to stimulate economic revival during the recovery period. However, the deviation in the gross fiscal deficit did not lead to a reliance on Ad hoc Treasury Bills, as the practice of automatic monetization was discontinued many years earlier.

36. (A) Income distance, forest cover, and demographic factors
Union Finance Commissions have historically utilized specific metrics to ensure that resources are distributed fairly among states. These criteria include income distance, forest cover, and demographic factors, which aim to support underdeveloped regions and promote equitable growth. State Finance Commissions often adopt these established frameworks when evaluating the financial health and resource requirements of various local bodies and administrative districts.

37. (A) P-3, Q-2, R-4, S-1
Each phase of the government's economic response had distinct features to address specific needs. The Pradhan Mantri Garib Kalyan Package focused on immediate relief through foodgrains and transfers. AatmaNirbhar Bharat Abhiyan 1.0 provided liquidity to financial institutions, while phase 2.0 introduced the LTC cash voucher scheme. Finally, phase 3.0 included equity infusion into the National Investment and Infrastructure Fund.

38. (A) I, II, IV, and V only
State finances during the pandemic were characterized by revenue shortfalls and a tendency to cut capital expenditure to meet fiscal targets. While states likely increased spending in healthcare and education, they struggled to commence major projects during the first half of the year due to lockdowns and monsoons. Significant cuts in state capex can counteract the growth-oriented spending efforts of the centre.

39. (D) Grants from the Centre
State governments facing revenue stress can rely on various forms of support recommended by the Finance Commission. One essential mechanism is the provision of grants from the Centre, which are designed to bridge financial gaps and support state-level expenditure. The Fifteenth Finance Commission recommended various grants that are slated to increase during the award period to assist states in maintaining essential services.

40. (A) P-3, Q-1, R-2, S-4
The Central Government's fiscal performance indicators for 2021-22 Budget Estimates reveal specific trends as a percentage of GDP. Gross Tax Revenue was estimated at 9.9 per cent, with both direct and indirect taxes contributing 5.0 per cent each. Non-debt receipts were projected at 8.9 per cent. These values provide a detailed overview of the government's expected revenue and taxation landscape.

41. (B) Equity Criteria — Per capita income and forest cover
Finance Commissions utilize specific criteria to promote equity and support the growth of underdeveloped states. Key metrics include per capita income levels, often represented through income distance, and environmental factors like forest cover. These equity-based criteria ensure that the distribution of resources is progressive, helping disadvantaged regions catch up while rewarding states for maintaining essential natural resources and demographic balance.

42. (C) Using data analytics and AI for better tax compliance
To achieve strong economic revival, the Union Budget 2021-22 aimed to increase tax buoyancy without raising tax rates. This goal was pursued through the conceptual approach of improving tax

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the inflation rate tends to move downward, suggesting no long-term trade-off between the two. However, the contrast in this growth-inflation balance becomes even more striking, rather than less, when the agricultural sector is removed from the analysis.

26. (D) Price stability and economic growth
Achieving sustainable development requires the close coordination of monetary and fiscal policies. Harmonizing these two pillars is a fundamental prerequisite for attaining the twin objectives of price stability and economic growth. When fiscal spending and money supply expansion are aligned with the country's productive capacity, the economy can avoid inflationary shocks while maintaining a steady and robust growth trajectory.

27. (A) I, II, III, and IV only
The Union Government introduced various economic reform measures including the Pradhan Mantri Garib Kalyan Package for food security and the AatmaNirbhar Bharat Abhiyan for liquidity. The first phase supported businesses, the second introduced leave travel concession vouchers, and the third featured the production-linked incentive scheme. Together, these initiatives were designed to provide comprehensive support across sectors during the global pandemic period.

28. (A) Strengthening of the primary objective of maintaining price stability
Historically, using an accommodative monetary policy to finance government plans often resulted in significant inflationary pressures and financial repression. By keeping interest rates on government securities artificially low, these policies failed to strengthen the primary objective of maintaining price stability. Instead, they undermined the central bank's ability to control the money supply and led to broader macroeconomic imbalances across the nation.

29. (A) I, II, and III only
The central government has outlined a fiscal consolidation path that targets a gross fiscal deficit of 6.8 per cent in 2021-22, gradually declining to below 4.5 per cent by 2025-26. This strategy relies on increased tax buoyancy and asset monetization to support capital outlay. While the centre has set these targets, states have budgeted their own consolidations at different levels.

30. (D) Market Stabilization Bonds
When an economy experiences a sudden surge in foreign investment, the central bank must manage the resulting excessive capital inflows to prevent inflation. Market Stabilization Bonds are utilized to immobilize these flows by absorbing the surplus liquidity from the domestic market. This intervention helps maintain price stability and prevents the money supply from expanding beyond what the economy can productively absorb.

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31. (C) Healthcare and pharmaceutical production facilities
The current public sector enterprise policy identifies specific strategic sectors where the government will maintain a minimal presence. These include atomic energy, space research, national defence, and critical infrastructure like transport and telecommunications. Strategic areas also encompass power, petroleum, and minerals. However, healthcare and pharmaceutical production are not categorized as strategic, meaning enterprises in these sectors are subject to privatization or closure.

32. (B) Cutting back capital expenditure by almost 0.5 per cent of GDP on average
State governments often face challenges in meeting deficit targets set by fiscal responsibility legislation, especially when revenues fall short. Historically, the most common response to these financial pressures is a reduction in capital expenditure. On average, states tend to cut back their capital spending by approximately 0.5 per cent of GDP to adhere to their prescribed fiscal deficit and borrowing limits.

33. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The total fiscal package announced by the Union Government includes both direct budgetary spending and below-the-line items like liquidity support and guarantees. Because these liquidity measures do not represent immediate out-of-pocket expenses for the government, the announced total does not reflect the actual fiscal

ANSWERS

1. (A) I only
The Indian economy historically faced stagnation with low growth rates of approximately 3 per cent until the 1980s. During this period, the adoption of an accommodative monetary policy primarily aimed to finance government deficits. This approach often undermined the objective of price stability by causing inflationary pressures and contributing to a state of financial repression across the whole nation.

2. (C) Agriculture
Structural shifts in the growth-inflation dynamic indicate that higher growth is generally accompanied by lower inflation. In specialized studies, the contrast in this balance becomes even more striking when the agricultural sector is removed from the calculations. This exclusion highlights how industrial and services sectors drive the modern macroeconomic relationship where accelerating economic growth often coincides with a decelerating inflation rate.

3. (D) Assertion (A) is false, but Reason (R) is true.
Extraordinary levels of fiscal stimulus provided to mitigate global economic crises carry significant long-term implications for managing national inflation. While these measures support immediate recovery, they necessitate a well-structured exit strategy to maintain fiscal discipline. Following such periods of high spending, a gradual withdrawal plan is essential for the government to successfully meet its established and essential medium-term fiscal targets.

4. (C) Fulfilling power sector reforms
The Fifteenth Finance Commission suggested specific borrowing limits for states to maintain fiscal sustainability while encouraging infrastructure development. Although a standard net borrowing limit is set, states can access an additional 0.5 per cent of their Gross State Domestic Product by fulfilling reforms in the power sector. This flexibility is conditional upon showing tangible improvements in operational and financial performance.

5. (B) Credit flows should be directed into speculative activities to maximize short-term growth.
Effective monetary and fiscal coordination requires that expansion aligns with the productive capacity of the country. Policies should ensure credit flows into productive sectors rather than speculative activities to prevent economic instability. Over the years, passing the FRBM Act and establishing ceilings on public debt have helped harmonize these authorities, ensuring that financial stability and growth remain the primary objectives.

6. (B) ₹82,911 crore.
As part of the extensive fiscal measures to provide relief during the pandemic, the Union Government announced various allocations for social welfare. Specifically, the extension of the Pradhan Mantri Garib Kalyan Anna Yojana required a significant financial commitment. The amount allocated for this extension was ₹82,911 crore, ensuring that food security was maintained for vulnerable populations throughout the difficult period.

7. (C) 7 per cent
Economist Robert Barro explored the relationship between inflation and economic growth across various nations. His research suggests that while moderate inflation may be manageable, high levels significantly hinder long-term prosperity. Specifically, he identifies a threshold of 7 per cent, below which optimal economic growth can be achieved. Maintaining inflation under this level is considered essential for ensuring a stable macroeconomic environment.

8. (B) The Repo rate was the sole monetary tool available and was changed more than 10 times.
During the period between 2009 and 2011, the central bank focused on controlling high inflation through frequent adjustments of its primary policy instrument. The Repo rate was utilized as the main tool and was modified more than ten times to anchor inflation expectations. This active management was necessary to address the

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compliance by leveraging advanced technology. Using data analytics and artificial intelligence allows for more efficient tax administration and identifies potential evasion, thereby increasing revenue collection through better enforcement and streamlined digital processes.

43. (B) Combined impact of the Q1 lockdown and Q2 monsoons
State governments often face logistical challenges that prevent the immediate commencement of capital expenditure at the start of a financial year. In the recent period, the combined impact of the national lockdown during the first quarter and the monsoons during the second quarter significantly hindered infrastructure projects. These seasonal and pandemic-related disruptions delayed the rollout of planned state-level investments and developmental activities.

44. (D) Market borrowings
Despite various available funding mechanisms, the Union Government primarily finances its gross fiscal deficit through market borrowings. This remains the most significant source for meeting the resource gap, especially when deficits are elevated due to economic stimulus and revenue shortfalls. While other sources like the National Small Savings Fund provide additional support, market-determined borrowing through bonds remains the central pillar.

45. (A) I, II, III, and V only
The Finance Commission is constitutionally mandated to recommend the distribution of tax proceeds between the Union and the States. This includes determining individual state shares and establishing principles for grants-in-aid from the Consolidated Fund of India. Additionally, the commission suggests measures to augment state resources for local bodies, such as Panchayats and Municipalities, based on recommendations from state-level commissions.

46. (B) Paying both employee and employer contribution to provident fund corpuses for organised sector workers
AatmaNirbhar Bharat Abhiyan 3.0 included various measures like additional outlays for urban housing, equity infusion in the national infrastructure fund, and production-linked incentives. However, the measure involving the payment of both employee and employer contributions to provident fund corpuses was actually introduced in an earlier phase. Each phase of the stimulus package targeted different sectors to ensure a broad economic recovery.

47. (B) Article 280
The Finance Commission is a constitutional body established to regulate the financial relations between the Union and the States. Article 280 of the Constitution of India provides the legal framework for its formation and functioning. Every five years, the President appoints this commission to recommend the distribution of tax revenues and define the principles governing grants-in-aid for the various states.

48. (C) ₹2.5 lakh crore
The central government has introduced an asset monetization pipeline to unlock the value of underutilized public assets and generate fresh revenue. This initiative targets approximately one hundred government-owned assets, projecting investment opportunities worth two and a half lakh crore rupees. By leveraging existing infrastructure, the government aims to fund new developmental projects without increasing the national debt or imposing additional tax burdens.

49. (A) The GFD budgeted at 3.2 per cent of GSDP is in line with the Fifteenth Finance Commission's recommendation on the revised fiscal roadmap.
For the year 2021-22, state government finances show a targeted consolidation in their fiscal deficits. Data from seventeen states indicates that the gross fiscal deficit is budgeted at 3.2 per cent of GSDP. This level aligns with the revised fiscal roadmap recommended by the Fifteenth Finance Commission, reflecting a coordinated effort toward sustainability while maintaining essential spending for economic recovery.

50. (C) Sustained exponential growth in expenditure for the whole year
Provisional accounts for states during the first half of 2020-21 showed a significant contraction in revenue receipts due to the lockdown. While there was an initial hike in expenditure, this was partly offset by measures such as dearness allowance freezes. Therefore, the notion of sustained exponential growth in expenditure throughout the entire year is incorrect, as states

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eventually implemented various spending restraints.

51. (D) K.C. Neogy
The first Finance Commission of India was established in 1951 to address the financial arrangements of the newly independent nation. Shri K.C. Neogy was appointed as the chairman of this inaugural body. Under his leadership, the commission developed the primary framework for tax devolution and financial assistance to states, setting a precedent for subsequent commissions to follow in fiscal management.

52. (B) I, II, IV, and V only
The 2021-22 budget introduced several initiatives, including technology-driven tax buoyancy and broader faceless assessments. The new public sector enterprise policy aims to minimize government presence in strategic areas and privatize or close enterprises in non-strategic sectors. Additionally, an asset monetization pipeline for one hundred government-owned assets was planned. However, maximizing the presence of enterprises across all sectors is not the objective.

53. (B) 6.8
In the Budget Estimates for 2021-22, the central government projected a gross fiscal deficit of 6.8 per cent of the national Gross Domestic Product. this elevated level was a result of increased spending on infrastructure and pandemic relief measures, alongside the gradual recovery of revenue. This figure reflects the government's fiscal stance as it sought to balance economic support with sustainability.

54. (C) I, III, and IV only
For 2021-22, state government budget estimates projected a revenue deficit of 0.3 per cent and a primary deficit of 1.5 per cent of GSDP. The previous year's revised estimates showed a gross fiscal deficit of 4.1 per cent. Although a consolidation was sought, the budgeted gross fiscal deficit for 2021-22 was actually 3.2 per cent, not 4.1 per cent as previously recorded.

55. (C) I and III only
Historically, state governments tend to reduce their capital expenditure to meet deficit targets set by fiscal responsibility legislation. This pattern was also observed in 2020-21 when compared to earlier provisional accounts. While the centre pushes for increased infrastructure spending, significant cuts in state-level capital expenditure actually counteract and undermine the overall growth impact of the national-level capital expenditure push.

56. (A) Budgeting FCI loans from the NSSF as government expenditure
A sharp increase in total expenditure for 2020-21 was partly caused by a significant shift in government accounting practices. Specifically, loans provided to the Food Corporation of India from the National Small Savings Fund were brought onto the budget and categorized as government expenditure. This move increased fiscal transparency but resulted in a one-time spike in the reported gross fiscal deficit.

57. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Finance Commissions are deemed to be civil courts for the purposes of legal codes, granting them specific investigative powers. Their qualifications, procedures, and broader powers are regulated by the Finance Commission (Miscellaneous Provisions) Act of 1951. While both statements regarding their legal status and regulatory framework are factually accurate, the specific legislative act does not serve as the explanation for their classification.

58. (A) P-3, Q-2, R-1, S-4
The Budget Estimates for 2021-22 provide several key indicators of central government fiscal performance. Total expenditure was projected at 15.6 per cent of GDP, with capital expenditure accounting for 2.5 per cent. The revenue deficit was estimated at 5.1 per cent, while the gross fiscal deficit was set at 6.8 per cent. These figures outline the government's spending and deficit management strategy.

59. (C) Increasing revenue receipts while raising capital expenditure
For the year 2021-22, seventeen state governments targeted fiscal consolidation by balancing revenue growth with necessary investments. Conceptually, this consolidation is achieved by increasing revenue receipts while

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simultaneously raising capital expenditure. This strategy aims to support economic revival through infrastructure development while improving the overall financial health of the states by reducing deficits through better revenue collection and management.

60. (B) Access to the National Small Savings Fund (NSSF)
To finance the gross fiscal deficit, the Union Government relies on several key sources of funding. While market borrowings serve as the primary source, the National Small Savings Fund acts as the secondary major source of financing. Accessing these domestic savings allows the government to bridge the resource gap remaining after market operations, supporting the continued funding of essential capital and revenue expenditure.

61. (A) P-4, Q-3, R-2, S-1
Finance Commissions operate during defined periods to provide fiscal recommendations. The Twelfth Commission covered the 2005 to 2010 timeframe, while the Thirteenth followed for 2010 to 2015. Subsequently, the Fourteenth Commission operated from 2015 to 2020, and the Fifteenth Commission was appointed for the 2021 to 2026 duration. These structured terms ensure periodic reviews of the national fiscal landscape.

62. (A) Grants to local bodies
Under the latest Finance Commission's recommendations, the composition of grants has undergone structural shifts. Within the hierarchy of different types of transfers, grants to local bodies hold a significant share. These grants are specifically designed to empower and provide essential funding for municipalities and panchayats, ensuring that local governance has the necessary resources to address development and service delivery needs.

63. (A) IV, II, I, III
The chronological order of early Finance Commissions is defined by their respective chairmen and operational periods. The Second Commission was headed by K. Santhanam, followed by the Third under A.K. Chanda. The Fourth Commission was led by P.V. Rajamannar, and the Fifth by Mahaveer Tyagi. This historical progression illustrates the early development of the framework for tax devolution and intergovernmental fiscal relations.

64. (C) Show improvement in operational and financial performance
To encourage state-level reforms, the Fifteenth Finance Commission allowed for additional borrowing space of 0.5 per cent of GSDP. To unlock this flexibility, state power distribution companies must demonstrate tangible improvements in their operational and financial performance. This incentive-based mechanism aims to improve the health of the power sector while providing states with the financial capacity to increase their capital investments.

65. (A) Equity-based criteria, thereby making the tax devolution progressive
Since the Eighth Finance Commission, the determination of horizontal tax sharing among states has been dominated by equity-based criteria. This conceptual approach aims to make tax devolution progressive by providing greater support to states with lower income levels or higher developmental needs. By focusing on equity, the commission ensures that the federal transfer system helps reduce regional disparities and supports national growth.

66. (A) I, II, III, and IV only
The 15th Finance Commission's fiscal roadmap includes restructuring the FRBM and projecting a debt-GDP ratio peaking in 2021-22 before declining. It also recommends stepping down net borrowing limits for states from 3.5 per cent to 3 per cent. However, the incentive-based additional borrowing for states is actually 0.5 per cent, not 1.5 per cent, making the latter figure incorrect in this roadmap.

67. (D) I, II, III, and IV
The Fifteenth Finance Commission was established in November 2017 under the chairmanship of Shri N.K. Singh. Its comprehensive report covering the 2021 to 2026 period was submitted to the government in November 2020 and subsequently presented to Parliament in February 2021. This commission played a critical role in redefining the fiscal relationship between the Union and the States during the pandemic.

NODIA

(A) Open Market Operation (OMO) sales
(B) Sell-buy Forex swaps
(C) Longer-term variable-rate reverse-repos
(D) Longer-term variable rate repos

May/June 2007

16. What are the mandated balances that banks are required to maintain in their accounts with the Reserve Bank of India known as?
(A) Required Reserves
(B) Excess Reserves
(C) Statutory Liquidity Reserves
(D) Marginal Standing Reserves

Oct/Nov 2010

17. Which statement about the money market liquidity conditions during 2020 is incorrect?
(A) The tri-party repo rate (TREPS) consistently remained higher than the repo rate
(B) The weighted average overnight money market rate (WAMM) hugged the bottom of the policy corridor
(C) The net LAF position increased to an average of Rs 4.7 lakh crore during Q1: 2020-21
(D) The central bank had to engage in daily absorption operations in the overnight reverse repo window

May/June 2015

18. Regarding the Working Group on Monetary Policy (March 15, 2011), what should be the optimal width of the policy corridor fixed at in normal circumstances?
(A) 150 basis points
(B) 50 basis points
(C) 100 basis points
(D) 200 basis points

Oct/Nov 2016

19. Which statement is correct regarding the interest rates on Certificate of Deposits (CDs) during the COVID-19 pandemic?
(A) The yields on 3-month and 6-month CDs increased significantly above the policy repo rate
(B) Banks increased their reliance on CDs as a primary mode of financing long-term assets
(C) The issuance of CDs was completely halted by the central bank to stabilize the market
(D) The yield on 3-month CDs fell below the reverse repo rate due to surplus liquidity in the banking system

May/June 2019

20. What was the consequence of moving a larger share of securities into the Held to Maturity (HTM) basket?
(A) It reduces the supply of paper in the market to that extent, thus supporting bond prices
(B) It increases the supply of paper in the market and depresses bond prices
(C) It forces banks to progressively mark-to-market their entire SLR portfolio
(D) It eliminates the need for the Standing Deposit Facility (SDF)

Oct/Nov 2022

21. Which entity was exclusively allowed to participate directly in all overnight liquidity management operations alongside scheduled banks under the revised Liquidity Adjustment Facility (LAF)?
(A) Mutual Funds (MFs)
(B) Housing Finance Companies (HFCs)
(C) Standalone Primary Dealers (SPDs)
(D) Micro Finance Institutions (MFIs)

May/June 2012

22. In which month and year was the interim Liquidity Adjustment Facility (ILAF) introduced?
(A) June 2000
(B) April 1999
(C) May 2001
(D) April 2004

Oct/Nov 2005

23. If the calculation of Banking Sector Liquidity (BSL) results in a positive figure, what does this indicate about the system?
(A) The system liquidity is in surplus
(B) The system is experiencing zero frictional liquidity
(C) The central bank has halted liquidity operations
(D) The system liquidity is in deficit

May/June 2023

24. Which of the following statements incorrectly describes the Internal Working Group (IWG) 2019 recommendations regarding reserve averaging?
(A) Maintaining a minimum requirement on a daily basis helps avoid bunching of reserve requirements
(B) The Group recommended that the present

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the Fifth. This sequence reflects the historical evolution of the commission's role in managing India's shared financial resources.

77. (A) I only
The Fifteenth Finance Commission recommended an elevated path for the Union Government's gross fiscal deficit to support economic recovery. However, the commission did not set a terminal target of exactly 3.0 per cent for 2025-26. Instead, it proposed a glide path that aims to bring the deficit down to 4.5 per cent by the end of the award period, reflecting the new fiscal realities.

78. (C) FC(11) — 1992
Finance Commissions are established periodically by the President of India to evaluate intergovernmental fiscal relations. The Sixth Commission was established in 1972, the Eighth in 1983, and the Fourteenth in 2013. However, the Eleventh Finance Commission was actually established in 1998, not in 1992 as suggested. These dates mark the start of the investigative and recommendation process for each commission's specific award period.

79. (B) Recommended eliminating revenue deficits at both levels
Successive Finance Commissions have consistently emphasized the importance of fiscal discipline and sustainability. A central theme in their historical recommendations has been the objective of eliminating revenue deficits at both the Union and State levels. By targeting the elimination of revenue deficits, the commissions aim to ensure that borrowed funds are utilized primarily for productive capital investments rather than everyday consumption.

80. (D) Demographic performance criterion
The Fifteenth Finance Commission introduced the demographic performance criterion to reward states that successfully implemented population control measures. This metric is calculated by taking the inverse of a state's total fertility rate from the 2011 census and multiplying it by its population from the 1971 census. This approach ensures that states making progress in social development are not penalized for demographic shifts.

81. (B) 85.7 per cent
According to the fiscal roadmap proposed by the Fifteenth Finance Commission, the national Debt/GDP ratio is expected to follow a specific trajectory over the next few years. After reaching a peak in the early part of the decade, the ratio is projected to decline to 85.7 per cent by the year 2025-26. This target reflects the goal of returning to long-term sustainability.

82. (B) P-3, Q-4, R-1, S-2
The leadership of various Finance Commissions has been instrumental in shaping India's fiscal federalism. K.C. Pant chaired the Tenth Commission, while A.M. Khusro led the Eleventh. The Twelfth Commission was headed by C. Rangarajan, and Vijay Kelkar took the helm for the Thirteenth. Each chairman contributed unique perspectives to tax devolution, grants-in-aid, and the management of national debt.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
While Finance Commissions have frequently increased the recommended tax devolution ratio, the actual amount of devolved taxes has not always risen commensurately. This discrepancy occurs because the Union Government has increasingly relied on cesses and surcharges to raise revenue. Since these specific levies are excluded from the divisible pool of taxes, they effectively reduce the total amount available for sharing with state governments.

84. (B) II only
The Fourteenth Finance Commission recommended that state governments should be excluded from the operations of the National Small Savings Fund. This change meant that states would no longer be required to borrow from this source. However, even with this exclusion from new operations, states were still required to fulfill their existing obligations regarding the servicing and repayment of loans already taken from the fund.

85. (C) I and III only
The Fifteenth Finance Commission recommended a historically high share of grants in total transfers compared to previous commissions. It also brought back sector- and

NODIA

68. (B) It was continuously used without interruption by the 13th and 14th Finance Commissions.
The tax effort criterion is a metric used by Finance Commissions to reward states for better tax administration and collection. While it was utilized by earlier commissions and re-introduced by the Fifteenth Finance Commission, it was not used continuously without interruption. Specifically, the Thirteenth and Fourteenth Finance Commissions did not include this criterion in their frameworks for determining the horizontal sharing of taxes.

69. (A) Guarantee Redemption Fund
State governments manage potential financial liabilities from guaranteed loans through the Guarantee Redemption Fund. This institutional measure, originally recommended by the Twelfth Finance Commission, allows states to set aside funds for future liabilities. When a state-owned enterprise defaults on a loan, the state can draw from this dedicated reserve to safeguard its fiscal stability and avoid disrupting its regular budgetary operations.

70. (C) Eleventh Finance Commission (FC-11)
A significant shift in India's fiscal history occurred when the Eleventh Finance Commission recommended making all union taxes shareable with state governments. Previously, only certain taxes like income tax and excise duties were included in the divisible pool. By excluding only cesses and surcharges from this pool, the commission significantly widened the revenue base available for distribution between the central and states.

71. (A) The ratio will peak at 89.6 per cent in the year 2022-23 before declining.
Based on projections by the Fifteenth Finance Commission, the national Debt/GDP ratio is expected to follow a specific trajectory. Due to the impact of the pandemic and necessary fiscal expansion, the ratio is projected to peak at 89.6 per cent during the 2022-23 financial year. Following this peak, the ratio is expected to gradually decline as the economy recovers and consolidates.

72. (A) P-4, Q-3, R-2, S-1
The leadership of Finance Commissions has been vital for developing India's intergovernmental fiscal framework. The Sixth Commission was chaired by K. Brahmananda Reddy, while J.M. Shellet led the Seventh. The Eighth Commission was headed by Y.B. Chavan, and N.K.P. Salve chaired the Ninth. Each commission addressed unique challenges regarding tax sharing and financial assistance to ensure equity and national economic stability.

73. (C) Assertion (A) is true, but Reason (R) is false.
The Fifteenth Finance Commission re-introduced sector- and state-specific grants into its fiscal recommendations to address specific developmental needs. However, the Union Government did not mandate the immediate, unconditional disbursement of all these grants without links to existing schemes. Many grants remain conditional on performance or are integrated with centrally sponsored initiatives to ensure that the allocated funds achieve their intended policy goals.

74. (A) I only
A major change in the Fifteenth Finance Commission's criteria was shifting the population basis from the 1971 census to the 2011 census. This move updated the framework to reflect more current demographic realities. However, the commission did not completely eliminate reference to population control efforts; instead, it introduced the demographic performance criterion to continue rewarding states that effectively reduced their fertility rates.

75. (D) I, II, III, and IV
The Fifteenth Finance Commission recommended several fiscal targets, including a glide path for the gross fiscal deficit and a peaking Debt/GDP ratio. It suggested that the deficit should move from 9.3 per cent down to 6.8 per cent. Furthermore, it set normal borrowing limits for states at 4 per cent for 2021-22 and projected a long-term debt ratio of 85.7 per cent.

76. (B) II, I, III, IV
The early Finance Commissions were led by a sequence of prominent chairmen who established the initial rules for federal transfers. K. Santhanam headed the Second Commission, followed by A.K. Chanda for the Third. Subsequently, P.V. Rajamannar led the Fourth Commission, and Mahaveer Tyagi chaired

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This ensures that any changes to national fiscal rules are carefully considered.

94. (C) Bring the inflation rate below the threshold of 7 per cent
In scenarios where an economy faces high inflation and slow growth, policymakers often look toward established theoretical frameworks for guidance. Based on the findings of Robert Barro, the immediate priority should be reducing the inflation rate. Specifically, bringing inflation below the critical 7 per cent threshold is necessary to create a favorable environment for investment and sustainable long-term economic expansion across the country.

95. (A) It stood at ₹6.26 lakh crore.
The aggregate fiscal position of states for the 2020-21 Budget Estimates showed a total fiscal deficit of ₹6.26 lakh crore. This figure reflects the planned resource gap for all states combined before the full impact of the pandemic became apparent. Managing such a large deficit requires careful coordination between state and central authorities to ensure continued access to necessary market borrowings.

96. (B) From 6 per cent down to 4 per cent
Under the 'baseline scenario' projected by the Fifteenth Finance Commission, the national gross fiscal deficit is expected to follow a specific downward trajectory. Starting from 6 per cent of GDP in the 2021-22 financial year, the deficit is projected to decline gradually. By the terminal year of the award period in 2025-26, the goal is to bring the ratio down to 4 per cent.

97. (D) Assertion (A) is false, but Reason (R) is true.
Harmonization of monetary and fiscal policies is not optional but essential for attaining growth and stability. Literature confirms that high inflation hinders economic expansion, necessitating policy coordination to ensure price stability. When these policies work together, the economy can avoid inflationary shocks and maintain a sustainable growth path. Without such coordination, fiscal spending and monetary expansion may conflict, leading to macroeconomic imbalances.

98. (B) The projected debt-GDP ratio is expected to reach an all-time high of 95 per cent by 2025-26.
The Fifteenth Finance Commission projected that the national Debt/GDP ratio would peak at 89.6 per cent in 2022-23 before declining. By the year 2025-26, the overall ratio is targeted at 85.7 per cent, with another metric projecting a ratio of 56.6 per cent. Therefore, the suggestion that the debt-GDP ratio would reach an all-time high of 95 per cent is incorrect.

99. (B) 3.5 per cent
For the period from 2023-24 to 2025-26, the normal net borrowing limit for states is restricted to 3 per cent of their GSDP. However, states can unlock an additional allowance of 0.5 per cent by meeting specific performance metrics in the power sector. By fulfilling these requirements, a state can achieve a total maximum net borrowing limit of 3.5 per cent for that year.

100. (D) By examining the path via an inter-departmental group
The pandemic significantly altered the fiscal landscape, making previously set debt sustainability targets difficult to achieve. Consequently, the latest Finance Commission advised the government to re-evaluate its path forward. Establishing a new timetable for fiscal consolidation requires careful analysis by a high-powered inter-departmental group. This group will examine revised targets and structural shifts needed to ensure long-term stability in national finances.

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state-specific grants, which had been a regular feature until the Thirteenth Commission. However, tax devolution remains the primary vehicle for transfers, and the claim that revenue deficit grants hold the highest share in the total composition is inaccurate.

86. (A) P-4, Q-3, R-2, S-1
The early Finance Commissions were led by a sequence of prominent chairmen who established the initial rules for federal transfers. K. Santhanam headed the Second Commission, followed by A.K. Chanda for the Third. Subsequently, P.V. Rajamannar led the Fourth Commission, and Mahaveer Tyagi chaired the Fifth. This sequence reflects the historical evolution of the commission's role in managing India's shared financial resources.

87. (B) To establish discipline and improve management of funds
The Fiscal Responsibility and Budget Management Act of 2003 was enacted to provide a legal framework for fiscal discipline in India. Its fundamental purpose is to establish institutional targets that improve the management of public funds and reduce government deficits. By setting clear goals for fiscal and revenue deficits, the Act aims to ensure long-term sustainability and transparency in the government's financial operations.

88. (C) I, II, and IV only
The Eleventh Finance Commission significantly widened the tax base by including all union taxes in the divisible pool. Successive commissions have generally increased the devolution ratio, with the Fourteenth Commission making tax devolution the primary vehicle for federal transfers. However, the Fourteenth Commission did not recommend a lower share; it actually recommended a substantial increase to 42 per cent of taxes.

89. (A) P-3, Q-3, R-1, S-2
Various institutional measures have been recommended by Finance Commissions to improve debt management and fiscal sustainability. The Twelfth Finance Commission suggested creating both sinking funds and guarantee redemption funds for states. The Fourteenth Commission recommended excluding state governments from the National Small Savings Fund operations. Most recently, the Fifteenth Commission provided for relaxations in fiscal targets to address the pandemic-induced economic crisis.

90. (A) Inverse TFR (2011) multiplied by population (1971)
The Fifteenth Finance Commission introduced the demographic performance criterion to reward states that successfully implemented population control measures. This metric is calculated by taking the inverse of a state's total fertility rate from the 2011 census and multiplying it by its population from the 1971 census. This approach ensures that states making progress in social development are not penalized for demographic shifts.

91. (B) High inflation levels are inimical to growth beyond a certain threshold
Macroeconomic principles suggest that while low and stable inflation can support economic activity, high inflation levels are detrimental to sustainable growth. Once inflation exceeds a certain threshold, it creates uncertainty, discourages investment, and erodes the purchasing power of consumers. Therefore, maintaining price stability is considered a vital prerequisite for ensuring that the economy can achieve its full productive potential over the long term.

92. (C) Both I and II
The Fifteenth Finance Commission recommended structured net borrowing limits for states to maintain fiscal sustainability. For the year 2021-22, the normal limit is set at 4 per cent of GSDP, which then steps down to 3.5 per cent in 2022-23. For the remainder of the award period until 2025-26, the limit stabilizes at 3 per cent, ensuring a gradual return to fiscal discipline.

93. (D) Assertion (A) is false, but Reason (R) is true.
While the pandemic disrupted fiscal targets, the Fifteenth Finance Commission did not mandate immediate, unilateral amendments to the FRBM Act without further review. Instead, the commission recommended that the restructuring of the fiscal framework and the timetable for achieving debt sustainability should be examined by a high-powered inter-departmental group.

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(A) The aggregate cash held by the public in the economy
(B) The reserves provided by a central bank to the banking system
(C) The total foreign exchange reserves held by the central bank
(D) The short-term deposits maintained by commercial banks with commercial banks

May/June 2014

8. Which of the following statements correctly describes a feature of the second stage of the Liquidity Adjustment Facility (LAF) introduced effective May 8, 2001?
(A) It established a fixed repo rate placed a notch higher than the reverse repo rate
(B) It provided normal liquidity at the Bank Rate and a backstop facility at a variable daily rate
(C) It allowed non-bank financial institutions to lend up to 85 percent of their average daily call money lending
(D) It merged the normal and backstop facilities into a single facility available at a single rate

Oct/Nov 2006

9. Which of the following is an incorrect statement based on the recommendations of the Working Group on Monetary Policy (March 15, 2011)?
(A) The weighted average overnight call money rate should be the operating target
(B) The optimal width of the policy corridor should be fixed at 250 basis points
(C) The reverse repo rate will constitute the lower bound of the corridor
(D) The Bank Rate should be reactivated as a discount rate constituting the upper bound of the corridor

May/June 2021

10. Following the monetary policy announcement on April 08, 2022, what is the width of the policy corridor?
(A) 25 basis points
(B) 65 basis points
(C) 50 basis points
(D) 150 basis points

Oct/Nov 2025

11. Which of the following was NOT a recommendation of the Working Group on Monetary Policy (March 15, 2011)?
(A) Reactivating the Bank Rate as a discount rate
(B) Fixing the Bank Rate at repo rate plus 50 basis points
(C) Allowing the collateral pool for reverse repo operations to include oil bonds
(D) Maintaining the optimal width of the policy corridor at 65 basis points

May/June 2009

12. How is the term premium up to one year defined in the context of government security yields?
(A) The difference between the 10-year benchmark yield and the 1-year yield
(B) The spread of the call money rate over the reverse repo rate
(C) The spread of Treasury Bill (T-Bill) yields over the policy repo rate
(D) The yield difference between corporate bonds and government securities of the same maturity

Oct/Nov 2012

13. Which of the following statements accurately describes the impact of Targeted Long Term Repo Operations (TLTROs) on the corporate bond market?
(A) They reduced borrowing costs for AAA and AA-rated borrowers to their lowest level in a decade
(B) They resulted in a complete exclusion of non-AAA rated entities from the primary market
(C) They steepened the G-Sec yield curve by halting all open market operations
(D) They caused the primary market issuances to drop by almost 50 percent in April 2020

May/June 2018

14. The choice between keeping the banking system in a deficit or surplus mode under the liquidity framework depends primarily on which factor?
(A) The monetary policy stance
(B) The direction of the policy rate
(C) The prevailing liquidity climate
(D) The level of inflation targeting

Oct/Nov 2017

15. According to the IWG 2019 recommendations, which of the following instruments is NOT considered a tool for neutralizing persistent surplus in system liquidity?

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CHAPTER 10
System Liquidity Management

Oct/Nov 2023

1. Under the revised liquidity management framework, which rate serves as the single operating target of liquidity operations?
(A) Tri-party repo rate (TREPS)
(B) Marginal Standing Facility (MSF) rate
(C) Standing Deposit Facility (SDF) rate
(D) Weighted Average Call Rate (WACR)

May/June 2011

2. Which of the following statements correctly identifies a feature of the Standing Deposit Facility (SDF) introduced in April 2022?
(A) It requires banks to provide high-quality government securities as collateral for liquidity absorption
(B) It serves as the upper bound of the policy corridor and is currently fixed at 4.25%
(C) It absorbs system liquidity without requiring the provision of government securities as collateral
(D) Its use is administered strictly at the central bank's discretion during standard market hours

Oct/Nov 2008

3. How is the Liquidity Adjustment Facility (LAF) defined in monetary policy formulation?
(A) A facility for the direct purchase of equity shares by the central bank from the open market
(B) A mechanism strictly reserved for foreign portfolio investors to manage exchange rate volatility
(C) A tool that allows banks to borrow money through repurchase agreements to resolve short-term cash shortages
(D) A long-term lending window designed to finance infrastructure projects exclusively

May/June 2024

4. Which of the following statements regarding the April 08, 2022 monetary policy announcements is incorrect?
(A) The central bank introduced the Standing Deposit Facility (SDF) as a new tool at 3.75%
(B) The Marginal Standing Facility (MSF) was fixed at the upper end of the policy corridor at 4.25%
(C) It restricts the use of SDF and MSF to the central bank's discretion, prohibiting bank initiation
(D) The width of the policy corridor was narrowed from 65 basis points down to 50 basis points

Oct/Nov 2015

5. Why did the first stage of the LAF place the reverse repo rate a notch higher than the repo rate?
(A) To discourage banks from maintaining excess reserves by penalizing low-interest liquidity deployment
(B) To raise short-term interest rates and maintain orderly conditions in the foreign exchange market
(C) To incentivize the participation of non-bank financial institutions in the inter-bank call money market
(D) To provide an automatic refinancing facility for export credit at a significantly lower operational cost

May/June 2005

6. Under the special refinance facilities totaling Rs 65,000 crore announced during the pandemic, which of the following institutions was NOT allocated funds?
(A) National Bank for Agriculture and Rural Development (NABARD)
(B) Infrastructure Leasing & Financial Services Ltd. (IL&FS)
(C) Small Industries Development Bank of India (SIDBI)
(D) Export Import Bank (Exim)

Oct/Nov 2019

7. What does central bank liquidity strictly refer to in the context of the banking system?

NODIA

minimum requirement of 90 per cent be retained
(C) The reserve averaging mechanism provides banks flexibility in managing their daily liquidity
(D) The minimum requirement for maintaining the prescribed Cash Reserve Ratio (CRR) on a daily basis should be raised to 100 per cent

Oct/Nov 2014

25. Which statement correctly reflects the Internal Working Group (IWG) 2019 recommendation on managing durable liquidity?
(A) Offsetting liquidity surpluses exclusively by utilizing 14-day variable rate repo operations
(B) Offsetting system liquidity deficits using OMO purchases or buy-sell Forex swaps
(C) Removing all boundaries of the corridor system to manage durable system liquidity
(D) Replacing open market operations with intra-day fine-tuning as the primary liquidity tool

May/June 2016

26. What is the underlying mechanism of a repurchase (repo) operation as part of Open Market Operations?
(A) The outright sale of government securities in the market without any specific obligation for future repurchase
(B) The issuance of fresh currency notes by the central bank to replace existing soiled notes in the system
(C) The purchase of long-term corporate bonds by the central bank to be held until their final maturity date
(D) The sale of short-term government securities on condition that they will be repurchased after a given date

Oct/Nov 2009

27. Which of the following variables is NOT directly used to assess the banking system's liquidity (BSL) as per the theoretical framework?
(A) Export Credit Refinance (ECR)
(B) Total Reverse Repo Deposits (RRD)
(C) Total borrowings of banks under LAF (TBBLAF)
(D) Actual Reserves Maintained (AR)

May/June 2025

28. The Reserve Bank of India raised the ceiling for government securities that can be held to maturity (HTM) to 23% up to which date?
(A) March 31, 2023
(B) March 31, 2024
(C) December 31, 2023
(D) April 01, 2024

Oct/Nov 2018

29. Which of the following statements regarding the theoretical framework underlying the Liquidity Adjustment Facility (LAF) is incorrect?
(A) Required Reserves (RR) represent the statutory reserves to be maintained by banks with the central bank
(B) Total borrowings of banks under LAF (TBBLAF) include all borrowings under REPO, MSF, and SLFMF
(C) Net borrowings of banks under LAF (NBLAF) is calculated by adding Total Reverse Repo Deposits (RRD) to TBBLAF
(D) Excess Reserves (ER) are calculated as Actual Reserves (AR) minus Required Reserves (RR)

May/June 2013

30. According to the guiding principles for the Liquidity Adjustment Facility (LAF), why should the rate at which a central bank absorbs liquidity and injects liquidity not materially be the same?
(A) To reduce the total volume of daily overnight operations required by the central bank
(B) To prevent immediate capital outflows from the domestic foreign exchange market
(C) To allow the central bank to conduct strategic open market operations effectively
(D) To influence market incentives and the price discovery process among participating banks

Oct/Nov 2021

31. Arrange the following market events and regulatory responses in chronological order, from earliest to latest:
I. World Health Organisation (WHO) declares COVID-19 a pandemic
II. Infrastructure Leasing & Financial Services Ltd. (IL&FS) defaults on commercial paper obligations
III. Reserve Bank introduces the Standing

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May/June 2020

78. Consider the following statements regarding money market and liquidity conditions post-COVID-19 outbreak:

I. Money markets remained flush with surplus liquidity due to central bank support.
II. The tri-party repo rate (TREPS) consistently remained lower than the reverse repo rate.
III. The yield on 3-month CPs in the primary market dropped in tandem with other interest rates.
IV. Total outstanding CPs increased dramatically due to the reliance of NBFCs and HFCs on short-term financing.
V. The yields on 3-month and 6-month Certificates of Deposit (CDs) fell below the policy repo rate.

Which combination of statements is correct?

(A) I, III, IV, and V only
(B) II, III, IV, and V only
(C) I, II, IV, and V only
(D) I, II, III, and V only

Oct/Nov 2013

79. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.

Assertion (A): The Standing Deposit Facility (SDF) allows the absorption of liquidity from the system without requiring banks to provide any collateral in exchange.

Reason (R): The SDF was introduced to serve as the upper end of the policy corridor at 4.25%.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

80. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.

Assertion (A): The choice between keeping the banking system liquidity in deficit or surplus mode depends entirely on the prevailing monetary policy stance.

Reason (R): The monetary policy stance under an inflation targeting framework is conducted through changes in interest rate and hinges on the direction of the policy rate.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

81. If the central bank chooses to employ foreign exchange operations to neutralize this persistent liquidity surplus, which specific transaction type should it execute?

(A) Outright purchase of sovereign gold bonds
(B) Buy-sell Rupee-Dollar swaps
(C) Sell-buy Rupee-Dollar swaps
(D) Reduction of the Cash Reserve Ratio

May/June 2008

82. Consider the following statements regarding the genesis and evolution of the Liquidity Adjustment Facility (LAF):

I. An interim Liquidity Adjustment Facility (ILAF) was introduced in April 1999.
II. The transition to a full-fledged LAF took place in June 2000.
III. In the first stage of LAF, a flexible repo rate was put in place to replace the earlier fixed rate repo.
IV. The Market Stabilisation Scheme (MSS) was introduced in April 2004 to offset excess liquidity from large capital inflows.
V. The Expert Committee chaired by Dr. Urjit R. Patel in 2014 recommended excessive reliance on overnight repos.

Which combination of statements is correct?

(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2020

83. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.

Assertion (A): A positive figure for Banking

NODIA

dollar
(C) To eliminate the participation of non-bank financial institutions in the domestic money markets
(D) To allow the central bank to hold all outstanding corporate bonds available in the wider economy

May/June 2006

38. Match the specific terms in List I with their corresponding definitions or context in List II:
List I: Terms
P. Market Stabilisation Scheme (MSS)
Q. Weighted Average Call Rate (WACR)
R. Operation Twist
S. TLTRO 2.0
List II: Definitions/Context
1. Simultaneous purchase of longer-dated securities and sale of short-tenor securities
2. The single operating target of the liquidity management framework
3. Introduced to offset the excess liquidity issuing forth from large capital inflows
4. Channelises liquidity specifically to small and mid-sized corporates, including NBFCs and MFIs
(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-1, Q-4, R-2, S-3
(D) P-4, Q-1, R-3, S-2

Oct/Nov 2007

39. Consider the following statements regarding the introduction of the Market Stabilisation Scheme (MSS) in April 2004:
I. It was introduced to offset the excess liquidity issuing forth from large capital inflows.
II. It was necessitated because the security holdings of the Reserve Bank of India proved inadequate to absorb the liquidity.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2008

40. Match the working groups/committees in List I with their specific recommendations or focus areas regarding the Liquidity Adjustment Facility (LAF) in List II:
List I: Working Groups/Committees
P. Internal Group (2003) chaired by D. Anjaneyulu
Q. Working Group on Monetary Policy (2011)
R. Expert Committee (2014) chaired by Dr. Urjit R. Patel
S. Internal Working Group (2019)
List II: Recommendations/Focus Areas
1. Recommended de-emphasising overnight repos and conducting operations through term repos of different tenors
2. Recommended merging the normal facility and back-stop facility into a single facility
3. Recommended replacing the one-sided target of one percent of NDTL and allowing variable rate operations
4. Recommended setting the optimal width of the policy corridor at 150 basis points
(A) P-2, Q-1, R-4, S-3
(B) P-2, Q-4, R-1, S-3
(C) P-4, Q-2, R-3, S-1
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2020

41. Consider the following statements regarding the deployment of Targeted Long Term Repo Operations (TLTROs):
I. TLTROs were deployed to address higher illiquidity premiums in the corporate bond market.
II. Funds availed under the TLTRO facility had to be deployed in the fresh acquisition of investment grade corporate bonds, CPs, and NCDs.
III. TLTRO 2.0 mandated that all funds must be invested exclusively in AAA-rated public sector undertakings.
Which combination of statements is correct?
(A) II and III only
(B) I and II only
(C) I and III only
(D) I, II, and III

May/June 2017

42. According to the guiding principles for the conduct of LAF, what is the most critical reason why banks should have the incentive to trade among themselves rather than only with the central bank?
(A) To eliminate the need for the central bank to maintain any foreign exchange reserves
(B) To ensure that the policy repo rate remains

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the reliance of the central bank on the overnight segment of the money market.

II. The key change proposed was phasing out the unlimited accommodation of liquidity needs at the fixed LAF repo rate.

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2012

55. Which of the following pairs is correctly matched regarding the features of liquidity instruments?

(A) Standing Deposit Facility (SDF) - Absorbs liquidity from the system without requiring banks to provide any collateral
(B) Marginal Standing Facility (MSF) - Injects liquidity into the system without collateral
(C) 14-day variable rate repo - Neutralizes persistent surplus durable liquidity
(D) Export Credit Refinance - Expanded under the Urjit Patel Committee recommendations

May/June 2018

56. What was the primary objective behind the introduction of the Special Liquidity Facility for Mutual Funds (SLF-MF)?

(A) To ease redemption pressures on mutual funds and preserve financial stability amid capital market volatility
(B) To enable mutual funds to issue equity shares directly to foreign investors
(C) To restrict mutual funds from investing in investment grade corporate bonds
(D) To transfer all mutual fund assets to the central bank's balance sheet

Oct/Nov 2017

57. Consider the following statements regarding the second stage of the Liquidity Adjustment Facility introduced effective May 8, 2001:

I. Banks were allowed to have 'normal' liquidity at the Bank Rate.
II. A 'backstop' facility was provided at a variable daily rate.
III. Export credit refinance was completely abolished.

Which combination of statements is correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2007

58. Match the operational dates in List I with the corresponding developments in the liquidity framework in List II:

List I: Operational Dates

P. April 1999
Q. June 5, 2000
R. May 8, 2001
S. April 2004

List II: Developments

1. Introduction of the Market Stabilisation Scheme (MSS)
2. Introduction of the second stage of LAF
3. Introduction of the interim Liquidity Adjustment Facility (ILAF)
4. Introduction of the first stage of LAF

(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-2, R-1, S-4

Oct/Nov 2010

59. Consider the following statements regarding the calculation of variables in the theoretical framework of LAF:

I. Net borrowings of banks under LAF (NBLAF) is derived by subtracting the total of all Reverse Repo Deposits (RRD) from the total borrowings of banks under LAF (TBBLAF).
II. Excess Reserves (ER) maintained by a bank are calculated by subtracting Actual Reserves (AR) from Required Reserves (RR).

Which of the statements is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2015

60. Match the categories of entities in List I with their corresponding fall in the spread of AAA-rated corporate bond yields in the last week of March 2020 in List II:

List I: Entity Categories

P. AAA-rated NBFCs
Q. AAA-rated PSUs, FIs, and banks
R. AAA-rated Corporates
S. AA-rated Corporates

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3. Net borrowings of banks under LAF minus Excess Reserves
4. Statutory reserves required to be maintained by banks with the central bank

(A) P-3, Q-1, R-4, S-2
(B) P-2, Q-4, R-1, S-3
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2019

49. Which of the following pairs of facilities and their associated rates under the early stages of LAF is incorrectly matched?

(A) Merged single standing liquidity facility (December 2003) - Policy Repo Rate
(B) Normal liquidity facility (May 2001) - Bank Rate
(C) Backstop facility (May 2001) - Variable daily rate
(D) Interim Liquidity Adjustment Facility (1999) - Fixed rate for absorbing surplus liquidity

May/June 2014

50. Match the components of the April 08, 2022 monetary policy announcements in List I with their respective figures in List II:

List I: Components
P. Standing Deposit Facility (SDF) rate
Q. Marginal Standing Facility (MSF) rate
R. Width of the policy corridor
S. Ceiling for HTM government securities up to March 31, 2023

List II: Figures
1. 50 basis points
2. 3.75%
3. 23%
4. 4.25%

(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-2, Q-4, R-1, S-3
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2006

51. Consider the following statements regarding the G-Sec yield curve and market interventions during the COVID-19 pandemic:

I. Abundant liquidity anchored the short-term G-Sec yields closer to the policy repo rate.
II. The 3-month T-bill cut-off generally remained higher than the repo rate since March 2020.
III. Special OMOs (Operation Twists) successfully lowered the 10-year benchmark yield.

Which combination of statements is correct?

(A) I and II only
(B) II and III only
(C) I, II, and III
(D) I and III only

May/June 2021

52. Arrange the following steps in the evolution of the liquidity management framework in chronological order, from earliest to latest:

I. Introduction of the Market Stabilisation Scheme (MSS)
II. First stage of Liquidity Adjustment Facility (LAF)
III. Introduction of Interim Liquidity Adjustment Facility (ILAF)
IV. Second stage of Liquidity Adjustment Facility (LAF)

(A) III, II, IV, I
(B) II, III, I, IV
(C) III, IV, II, I
(D) IV, II, III, I

Oct/Nov 2025

53. Match the recommendations of the Working Group on Monetary Policy in List I with their respective values in List II:

List I: Recommendations
P. Optimal width of the policy corridor
Q. Spread of Bank Rate above the repo rate
R. Spread of reverse repo rate below the repo rate
S. Limit for the Exceptional Standing Facility (ESF) as a percentage of NDTL

List II: Values
1. 100 basis points
2. 50 basis points
3. 1 per cent
4. 150 basis points

(A) P-1, Q-3, R-4, S-2
(B) P-4, Q-2, R-1, S-3
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-4, R-3, S-1

May/June 2009

54. Consider the following statements regarding the recommendations of the Expert Committee chaired by Dr. Urjit R. Patel (2014):

I. The Committee recommended increasing

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permanently equal to the reverse repo rate
(C) To maintain the efficiency of the price discovery process in the inter-bank money market
(D) To automatically convert all frictional liquidity requirements into durable liquidity surpluses

Oct/Nov 2023

43. Which of the following pairs correctly interprets the calculation of Banking Sector Liquidity (BSL)?
(A) A negative BSL figure - Indicates that the system liquidity is in deficit
(B) A positive BSL figure - Indicates that the system liquidity is in deficit
(C) A zero BSL figure - Indicates that Excess Reserves (ER) exceed Net borrowings (NBLAF)
(D) A positive BSL figure - Indicates that the system liquidity is in surplus

May/June 2011

44. Match the institutions in List I with the specific amounts availed from special refinance facilities as of July 07, 2020, or deployment data in List II:
List I: Institutions
P. NABARD
Q. NHB
R. SIDBI
S. Banks' own resources deployed under SLF-MF
List II: Amounts/Resources
1. Rs 7,935 crore
2. Rs 22,000 crore
3. Rs 5,522 crore
4. Rs 9,537 crore
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2008

45. Consider the following statements regarding the recommendations of the Working Group on Monetary Policy (March 15, 2011):
I. The modified LAF should operate in a surplus liquidity mode around (+) 1% of NDTL.
II. The optimal width of the policy corridor should be fixed at 150 basis points.
III. The weighted average overnight call money rate should be the operating target of the central bank.
Which combination of statements is correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2024

46. Under the revised framework based on the IWG recommendations, which operation was established as the most appropriate main liquidity management tool for managing frictional liquidity requirements?
(A) A daily fixed rate repo operation
(B) A 14-day term repo/reverse repo operation at a variable rate
(C) A 28-day Standing Deposit Facility operation
(D) An outright open market purchase of 10-year G-Secs

Oct/Nov 2015

47. Consider the following statements regarding the recommendations on reserve averaging by the IWG (2019):
I. The Group recommended reducing the minimum requirement of maintaining the prescribed Cash Reserve Ratio (CRR) on a daily basis to 70 per cent.
II. The practice of maintaining a minimum daily requirement helps avoid the bunching of reserve requirements by individual banks.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

48. Match the variables related to the theoretical framework of liquidity in List I with their respective definitions in List II:
List I: Variables
P. BSL
Q. ER
R. RR
S. NBLAF
List II: Definitions
1. Actual Reserves Maintained minus Required Reserves
2. Total borrowings under LAF minus Total Reverse Repo Deposits

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List II: Yield Spread Fall
1. 147 bps
2. 146 bps
3. 170 bps
4. 138 bps

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

Oct/Nov 2016

61. Consider the following statements regarding the IWG 2019 comprehensive recommendations for liquidity management:
I. The corridor system should be maintained over a floor system.
II. The Weighted Average Call Rate (WACR) should continue as the target rate.
III. Deficit in system liquidity should ideally be offset by durable liquidity injection measures like OMO purchases.
IV. The current difference of 25 basis points between the repo rate and the reverse-repo rate should be eliminated.
V. The margin requirement for reverse-repo transactions should continue to be 'Nil'.
Which combination of statements is correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, II, III, and V only
(D) I, III, IV, and V only

May/June 2019

62. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.
Assertion (A): The corporate bond market in India witnessed a complete exclusion of non-AAA rated entities following the deployment of TLTROs.
Reason (R): Evidence suggests that TLTROs helped ease the stress for non-AAA rated entities, increasing their share of issuances in the market.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

63. Consider the following statements regarding the revised framework of LAF based on the IWG recommendations:
I. The requirement for a one-sided target for liquidity provision of one percent of NDTL was removed.
II. The daily fixed rate repo and four 14-day term repos conducted every fortnight were withdrawn.
III. A 14-day term repo/reverse repo operation at a variable rate was made the main liquidity management tool.
IV. The weighted average call rate (WACR) was replaced by the TREPS as the single operating target.
Which combination of statements is correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) I, III, and IV only
(D) II, III, and IV only

May/June 2012

64. To manage sudden short-term mismatches in cash flows, which instrument should the central bank mandate as its main liquidity management tool?
(A) A daily fixed rate overnight repo
(B) A 28-day Standing Liquidity Facility
(C) A 14-day term repo/reverse repo operation at a variable rate
(D) Outright open market purchase of 5-year bonds

Oct/Nov 2005

65. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.
Assertion (A): During the first stage of LAF, the reverse repo rate was placed a notch higher than the repo rate.
Reason (R): This was done essentially to push up short-term rates of interest with a view to maintaining orderly conditions in the foreign exchange market.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true,

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but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

66. To address a persistent surplus effectively, which combination of tools is explicitly recommended as suitable alternatives to outright OMO sales for this purpose?
(A) Longer-term variable-rate reverse-repos and sell-buy Forex swaps
(B) 14-day variable rate repos and Marginal Standing Facilities
(C) Overnight fixed rate repos and buy-sell Forex swaps
(D) Export credit refinance and Standing Deposit Facility

Oct/Nov 2014

67. Consider the following statements regarding the theoretical framework and determinants of liquidity:
I. Total borrowings of banks under LAF (TBBLAF) include REPO, MSF, and SLFMF.
II. Net borrowings of banks under LAF (NBLAF) is TBBLAF minus Total of all Reverse Repo Deposits (RRD).
III. Excess Reserves (ER) equal Actual Reserves (AR) minus Required Reserves (RR).
IV. Banking Sector Liquidity (BSL) equals NBLAF plus ER.
Which combination of statements is correct?
(A) I, II, and IV only
(B) II, III, and IV only
(C) I, II, and III only
(D) I, III, and IV only

May/June 2016

68. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.
Assertion (A): A 14-day term repo/reverse repo operation at a variable rate was made the main liquidity management tool for managing frictional liquidity requirements.
Reason (R): The 14-day operation was structured specifically to coincide with the cash reserve ratio (CRR) maintenance cycle.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

69. Continuing from Bank Alpha's position (TBBLAF = Rs 8,000 crore, RRD = Rs 2,000 crore, ER = Rs 500 crore), calculate the Banking Sector Liquidity (BSL) for Bank Alpha.
(A) Rs 5,500 crore
(B) Rs 6,500 crore
(C) Rs 10,500 crore
(D) Rs 4,500 crore

May/June 2025

70. Consider the following statements regarding initiatives for G-Secs and Corporate Bonds during 2020:
I. Operation Twists involved the simultaneous purchase of longer-dated securities and sale of short-tenor securities.
II. The 10-year benchmark yield closed significantly lower following the announcement of special OMOs.
III. Long Term Repo Operations (LTROs) were conducted for 1-year and 3-year tenors.
IV. The term premium up to one year turned positive immediately after the LTRO announcement and remained so.
V. The TLTROs eased access to the corporate bond market, lowering yields for AAA and AA-rated borrowers.
Which combination of statements is correct?
(A) I, II, IV, and V only
(B) II, III, IV, and V only
(C) I, II, III, and V only
(D) I, III, IV, and V only

Oct/Nov 2018

71. In the case of the major infrastructure finance company default in 2018, what underlying vulnerability of NBFCs was brought under intense scrutiny?
(A) Their funding structure and Asset Liability Management (ALM) mismatches
(B) Their over-reliance on Export Credit Refinance
(C) Their excessive investment in sovereign gold bonds

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(D) Their aggressive issuance of equity shares to retail investors

May/June 2013

72. Consider the following statements regarding the monetary policy measures announced on April 08, 2022:

I. The Standing Deposit Facility (SDF) was introduced at 3.75% to serve as the floor for the policy corridor.
II. The width of the policy corridor was widened to 65 basis points.
III. The SDF allows the absorption of liquidity without requiring banks to provide any collateral.
IV. The use of the SDF and MSF was restricted to regular market hours only.

Which combination of statements is correct?
(A) II and IV only
(B) I and III only
(C) I, II, and III only
(D) I, III, and IV only

Oct/Nov 2021

73. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.
Assertion (A): Special Open Market Operations (Operation Twists) involved the simultaneous purchase of longer-dated securities and sale of short-tenor securities.
Reason (R): These operations were conducted by the central bank to steepen the yield curve and constrain corporate market access.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

74. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.
Assertion (A): The Market Stabilisation Scheme (MSS) was introduced in April 2004 to offset excess liquidity in the system.
Reason (R): The security holdings of the Reserve Bank of India proved inadequate to absorb the liquidity issuing forth from large capital inflows.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2011

75. In Country X, if the banking system liquidity builds up into a persistent surplus far exceeding 0.5 per cent of NDTL, how should this condition be classified?
(A) Frictional liquidity surplus
(B) Structural liquidity deficit
(C) Transitory operational gap
(D) Durable liquidity surplus

May/June 2022

76. Consider the following statements regarding the guiding principles for the conduct of LAF:

I. The choice between keeping the banking liquidity in deficit or surplus depends on the monetary policy stance.
II. Unanticipated liquidity developments may necessitate the use of variable rate repo operations.
III. Liquidity operations should predominantly be of overnight maturity to minimize intervention in the inter-bank market.
IV. Banks should be able to lend in the inter-bank money market at rates not below the rate at which they can lend to a central bank.

Which combination of statements is correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) I, II, and IV only
(D) II, III, and IV only

Oct/Nov 2024

77. Which of the following serves as the single operating target of the liquidity management framework?
(A) Tri-party repo rate (TREPS)
(B) 14-day Treasury Bill yield
(C) Standing Deposit Facility rate
(D) Weighted Average Call Rate (WACR)

Deposit Facility (SDF) at 3.75%
IV. Collapse of a large housing finance company, DHFL
(A) II, IV, I, III
(B) IV, II, III, I
(C) II, I, IV, III
(D) I, II, IV, III

May/June 2010

32. Which of the following pairs of working groups/ committees and their Chairmen is incorrectly matched?
(A) Internal Group on Liquidity Adjustment Facility (2003) - D. Anjaneyulu
(B) Working Group on Operating Procedure of Monetary Policy (2011) - Dr. Raghuram Rajan
(C) Expert Committee to Revise and Strengthen Monetary Policy Framework (2014) - Dr. Urjit R. Patel
(D) Committee on Banking Sector Reforms (1998) - M. Narasimham

Oct/Nov 2011

33. What is the most appropriate rationale for conducting the 14-day term repo/reverse repo operation as the main liquidity tool?
(A) It matches the maturity profile of commercial paper issuances
(B) It coincides with the cash reserve ratio (CRR) maintenance cycle
(C) It automatically offsets all foreign exchange intervention operations
(D) It replaces the need for maintaining the statutory liquidity ratio (SLR)

May/June 2022

34. Consider the following statements regarding the Special Liquidity Facility for Mutual Funds (SLF-MF):
I. Banks deploying funds under SLF-MF were granted several regulatory benefits to ease the redemption pressure on mutual funds.
II. Banks were restricted to deploying only the funds availed from the central bank and could not deploy their own resources under the SLF-MF scheme.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2024

35. Match the underlying instruments in List I with their primary purpose for the conduct of LAF in List II:
List I: Instruments
P. Outright OMO purchases
Q. 14-day variable rate repo
R. SLF-MF
S. OMO sales
List II: Purpose
1. Main liquidity management tool for managing frictional liquidity requirements
2. Eases redemption pressure specifically on mutual funds and preserves financial stability
3. Offsets deficit in system liquidity by injecting durable liquidity
4. Neutralizes persistent surplus in system liquidity by absorbing durable liquidity
(A) P-3, Q-1, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-1, Q-4, R-3, S-2
(D) P-2, Q-3, R-4, S-1

May/June 2020

36. Consider the following statements regarding the IWG 2019 recommendations for the revised liquidity management framework:
I. Standalone Primary Dealers (SPDs) should be allowed to participate directly in all overnight liquidity management operations.
II. The framework should continue to be based on the corridor system rather than a floor system.
III. The daily primary liquidity management operation should ideally be a single overnight variable rate operation.
Which combination of statements is correct?
(A) I and III only
(B) I and II only
(C) II and III only
(D) I, II, and III

Oct/Nov 2013

37. What is the most appropriate primary objective of an efficiently designed Liquidity Adjustment Framework (LAF)?
(A) To balance system funds to achieve monetary policy goals of price stability with growth
(B) To maintain a strict target for the exchange rate of the domestic currency against the

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Sector Liquidity (BSL) indicates that the system liquidity is in deficit.
Reason (R): BSL is calculated by subtracting Excess Reserves (ER) from the Net borrowings of banks under LAF (NBLAF).
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2017

84. Based on the calculated BSL of Rs 5,500 crore for Bank Alpha, how should the liquidity condition of the system be interpreted according to the framework?
(A) The system liquidity is in surplus
(B) The system liquidity is perfectly balanced
(C) The system liquidity is in deficit
(D) The system is experiencing negative frictional liquidity

Oct/Nov 2023

85. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.
Assertion (A): The yields on 3-month and 6-month Certificate of Deposits (CDs) fell below the policy repo rate during the pandemic.
Reason (R): Policy easing and surplus liquidity in the banking system reduced the reliance of banks on CDs as a mode of financing.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

86. Consider the following statements regarding the corporate bond market and regulatory support during the pandemic:
I. The IL&FS default in 2018 brought the funding structure and ALM mismatches of NBFCs under intense scrutiny.
II. The central bank permitted commercial banks to provide partial credit enhancement to bonds issued by select NBFCs and HFCs.
III. TLTRO 2.0 channelised liquidity to small and mid-sized corporates, mandating at least 50 per cent investment in instruments of MFIs and smaller NBFCs.
IV. Special refinance facilities totaling Rs 65,000 crore were provided to the AIFIs, including NABARD, SIDBI, NHB, and Exim Bank.
Which combination of statements is correct?
(A) I, II, and III only
(B) I, II, III, and IV
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2008

87. To minimize uncertainty regarding operations, how should the daily primary operation ideally be structured according to the IWG?
(A) As multiple fixed rate operations staggered throughout the day
(B) As one single overnight variable rate operation
(C) As continuous fine-tuning operations based on intra-day shocks
(D) As a permanent standing facility offering unlimited accommodation

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May/June 2024

88. Consider the following statements regarding the policy measures as of April 2022:
I. The Standing Deposit Facility (SDF) forms the lower end of the policy corridor at 3.75%.
II. The Marginal Standing Facility (MSF) is situated at the upper end of the policy corridor at 4.25%.
III. The width of the policy corridor was narrowed from 65 basis points to 50 basis points.
IV. The ceiling for government securities held to maturity (HTM) was permanently raised to 25%.
V. The SDF and MSF are available after market hours on all days of the week.
Which combination of statements is correct?
(A) I, II, III, and IV only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2015

89. Based on the case study data provided, what is the value of the Excess Reserves (ER) maintained by Bank Alpha?
(A) Rs 2,500 crore
(B) Rs 500 crore
(C) Rs 1,500 crore
(D) Rs 3,500 crore

May/June 2005

90. The following question consists of two statements: Assertion (A) and Reason (R). Choose the correct option to describe the relationship between them.
Assertion (A): The Weighted Average Call Rate (WACR) continues to be the target rate of the liquidity management framework.
Reason (R): The call money market is the only money market segment which trades exclusively in reserves.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

91. In April 2022, which facility was introduced to serve as the new floor for the policy corridor?
(A) Marginal Standing Facility (MSF)
(B) Standing Deposit Facility (SDF)
(C) Fixed Rate Reverse Repo
(D) 14-day Variable Rate Repo

May/June 2014

92. Which instrument was explicitly designed to mandate banks to deploy funds in fresh acquisitions of corporate bonds and CPs of stressed entities?
(A) Market Stabilisation Scheme (MSS)
(B) Standing Deposit Facility (SDF)
(C) Targeted Long Term Repo Operations (TLTROs)
(D) Overnight Variable Rate Reverse Repo (VRRR)

Oct/Nov 2006

93. How did the shift in sentiment following the 2018 default directly impact the operations of NBFCs and HFCs?
(A) It resulted in an immediate upgrade of their corporate bonds to AAA status
(B) It triggered an automatic reduction in their statutory liquidity ratio requirements
(C) It allowed them to borrow unlimited funds from the inter-bank call money market
(D) It led to a pervasive risk aversion, resulting in increased funding costs and partial loss of market access

May/June 2021

94. What was the trajectory announced in April 2022 for the Held to Maturity (HTM) ceiling restoration?
(A) Raised to 25% permanently with immediate effect
(B) Decreased immediately to 19.5% and phased out entirely by March 31, 2024
(C) Raised to 23% up to March 31, 2023, and restored to 19.5% in a phased manner ending Q4 FY24
(D) Maintained at 22% with a penalty for any breach post-April 2022

Oct/Nov 2025

95. What were the permitted methods for banks to utilize SLF-MF funds to assist mutual funds facing liquidity requirements?
(A) Extending loans and undertaking outright purchase of and/or repos against eligible collateral held by MFs
(B) Purchasing MF equity shares and offering uncollateralized overdrafts
(C) Depositing the funds into the mutual funds' zero-interest current accounts
(D) Mandating MFs to convert all their debt holdings into government securities

May/June 2009

96. Which measure was implemented to provide credit enhancement to bonds issued by select NBFCs and HFCs during the 2018 crisis?
(A) Abolishing the minimum capital adequacy ratio for all HFCs
(B) Permitting banks to reckon government securities held by them up to an amount equal to their incremental outstanding credit to NBFCs and HFCs as Level-1 HQLA
(C) Allowing NBFCs to accept public deposits without any upper limit
(D) Exempting HFCs from all corporate tax liabilities for a period of three years

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Oct/Nov 2012

97. Following the April 2022 modifications, when are the SDF and MSF made available to the banks?

(A) After market hours on all days of the week
(B) Only during the first hour of market opening on weekdays
(C) Exclusively on the reporting Friday of every fortnight
(D) Strictly during standard market hours from 9 AM to 3 PM

May/June 2018

98. Under the specialized facility for MFs, which of the following constituted the eligible collateral for the outright purchase or repo transactions conducted by banks?

(A) Speculative grade bonds and foreign exchange derivatives
(B) Investment grade corporate bonds, CPs, debentures, and CDs
(C) Unlisted equity shares and real estate investment trusts
(D) Sovereign gold bonds and oil bonds exclusively

Oct/Nov 2017

99. Which specific regulatory facility did the central bank introduce in 2020 to preserve financial stability in the mutual fund sector?

(A) Exceptional Standing Facility (ESF)
(B) Targeted Long Term Repo Operations 2.0 (TLTRO 2.0)
(C) Additional Collateralised Lending Facility (ACLF)
(D) Special Liquidity Facility for Mutual Funds (SLF-MF)

May/June 2007

100. What is the direct intended impact of moving a larger share of government securities into the HTM basket?

(A) It drastically increases the supply of paper in the market, leading to a crash in bond prices
(B) It forces a simultaneous spike in the yield of all corporate bonds across the spectrum
(C) It restricts foreign portfolio investors from participating in the equity markets
(D) It reduces the supply of paper in the market to that extent, thereby supporting bond prices

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to central bank interventions. Consequently, the tri-party repo rate consistently traded below the policy repo rate, often hugging the floor of the corridor. It did not remain higher than the repo rate, as the abundance of funds pushed all overnight money market rates downward throughout the entire period.

18. (C) 100 basis points
The 2011 Working Group on Operating Procedure of Monetary Policy suggested that the optimal width of the policy corridor should be 100 basis points. In this framework, the repo rate acts as the single policy rate. The reverse repo rate is fixed 50 basis points below, and the MSF rate is 50 basis points above the policy repo rate.

19. (D) The yield on 3-month CDs fell below the reverse repo rate due to surplus liquidity in the banking system
During the pandemic, the combination of aggressive policy easing and massive liquidity injections led to a sharp decline in short-term interest rates. Surplus liquidity was so significant that yields on 3-month Certificates of Deposit fell below the reverse repo rate. This reflected the extremely low demand for funds among banks and the high availability of cheaper alternative liquidity sources available.

20. (A) It reduces the supply of paper in the market to that extent, thus supporting bond prices
When banks move a larger portion of their government security holdings into the Held to Maturity basket, these securities are no longer available for active trading in the secondary market. This reduction in the effective supply of tradable paper helps to stabilize or increase bond prices. It also protects banks from valuation losses caused by rising interest rates in the market.

21. (C) Standalone Primary Dealers (SPDs)
Under the revised Liquidity Adjustment Facility framework, Standalone Primary Dealers were granted the exclusive right to participate directly in all overnight liquidity management operations alongside scheduled commercial banks. This inclusion ensures that these key market intermediaries have access to central bank liquidity, which helps maintain stability and efficiency in the government securities and money markets during daily trading and operations.

22. (B) April 1999
The interim Liquidity Adjustment Facility was introduced in April 1999 as a precursor to the full-fledged LAF. It was designed to provide a mechanism for the central bank to manage liquidity through fixed-rate repos and reverse repos. This step marked a significant transition in monetary policy implementation, moving toward more market-based instruments for managing short-term interest rates in the system.

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23. (D) The system liquidity is in deficit
In the theoretical framework of liquidity analysis, a positive Banking Sector Liquidity figure indicates that the system is in a deficit. This means that the total borrowings of banks from the central bank exceed the excess reserves they are maintaining. Consequently, the banking system is a net borrower of liquidity, requiring central bank intervention to meet its operational requirements.

24. (D) The minimum requirement for maintaining the prescribed Cash Reserve Ratio (CRR) on a daily basis should be raised to 100 per cent
The 2019 Internal Working Group recommended that the existing minimum daily requirement of 90 per cent for Cash Reserve Ratio maintenance should be retained. Raising the requirement to 100 per cent would remove the flexibility banks need to manage daily cash flow mismatches. Reserve averaging is designed to provide operational ease while preventing excessive volatility in the overnight call money rates.

25. (B) Offsetting system liquidity deficits using OMO purchases or buy-sell Forex swaps
The Internal Working Group of 2019 recommended that structural or durable liquidity deficits should be managed through long-term tools. These include Open Market Operation purchases and buy-sell foreign exchange swaps. By injecting durable liquidity, the central bank ensures that the banking system has sufficient long-term funds, allowing shorter-term tools to focus on managing temporary, frictional liquidity fluctuations within the market.

available at a variable daily rate. This structure provided banks with more flexibility while ensuring the central bank could manage system-wide liquidity more effectively during that period.

9. (B) The optimal width of the policy corridor should be fixed at 250 basis points
The 2011 Working Group on Monetary Policy recommended that the optimal width of the policy corridor should be fixed at 100 basis points. It suggested that the repo rate should be the single policy rate, with the reverse repo and Bank Rate forming the corridor. Proposing a 250 basis point width would have allowed for excessive volatility in short-term rates.

10. (C) 50 basis points
Following the monetary policy review in April 2022, the central bank narrowed the policy corridor to 50 basis points. This corridor is defined by the Standing Deposit Facility rate at the lower end and the Marginal Standing Facility rate at the upper end. A narrower corridor aims to reduce volatility in the weighted average call rate and improve policy transmission efficiency.

11. (D) Maintaining the optimal width of the policy corridor at 65 basis points
The 2011 Working Group focused on streamlining operating procedures. It recommended reactivating the Bank Rate, fixing it at 50 basis points above the repo rate, and including oil bonds in collateral. However, it specifically proposed an optimal corridor width of 100 basis points. A width of 65 basis points was not part of its core recommendations for the framework.

12. (C) The spread of Treasury Bill (T-Bill) yields over the policy repo rate
In government security markets, the term premium for maturities up to one year is typically measured by the spread of Treasury Bill yields over the policy repo rate. This spread reflects market expectations regarding future interest rate movements and liquidity conditions. It serves as an important indicator for pricing various short-term financial instruments and assessing market sentiment in the economy.

13. (A) They reduced borrowing costs for AAA and AA-rated borrowers to their lowest level in a decade
Targeted Long Term Repo Operations were instrumental in easing liquidity stress within the corporate sector. By providing low-cost funds to banks for investment in corporate bonds, these operations significantly reduced yield spreads. This led to AAA and AA-rated borrowers accessing the market at historically low costs, thereby supporting financial stability and credit flow during the pandemic-induced economic slowdown across the country.

14. (C) The prevailing liquidity climate
The choice to maintain the banking system in either a deficit or surplus mode depends on the prevailing liquidity climate. While the monetary policy stance provides the overall direction, the central bank adjusts its operations based on actual liquidity conditions. This ensures that the operating target remains aligned with the policy rate, regardless of frictional or structural changes in the system.

15. (D) Longer-term variable rate repos
The 2019 Internal Working Group identified specific tools to manage persistent liquidity surpluses, including Open Market Operation sales, sell-buy Forex swaps, and longer-term variable-rate reverse repos. Longer-term variable rate repos are used for injecting liquidity during deficits, not for absorbing surpluses. Therefore, they are not considered a tool for neutralizing excess system liquidity in this context or within the framework.

16. (A) Required Reserves
Required Reserves are the mandated balances that commercial banks must maintain in their accounts with the central bank. These are determined as a percentage of the bank's net demand and time liabilities. This statutory requirement serves as a tool for monetary control and ensures that banks maintain a minimum level of liquidity to meet depositor demands and settle inter-bank obligations.

17. (A) The tri-party repo rate (TREPS) consistently remained higher than the repo rate
During 2020, the banking system was characterized by massive liquidity surpluses due

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52. (A) III, II, IV, I
The evolution began with the interim Liquidity Adjustment Facility in April 1999. This was followed by the first stage of the LAF in June 2000 and the second stage in May 2001. Finally, the Market Stabilisation Scheme was introduced in April 2004 to handle liquidity surpluses from large capital inflows. This sequence reflects the progressive refinement of India's liquidity management tools and framework.

53. (B) P-4, Q-2, R-1, S-3
The 2011 Working Group recommended an optimal corridor width of 100 basis points. It suggested the Bank Rate be 50 basis points above the repo rate and the reverse repo 50 basis points below. Additionally, it proposed an Exceptional Standing Facility with a limit of 1 per cent of NDTL. These specific values were designed to create a structured and predictable environment for overnight interest rates.

54. (B) Only II
The Urjit Patel Committee recommended moving away from overnight repo operations toward term repos to develop the term money market. It specifically proposed phasing out unlimited liquidity accommodation at a fixed rate, encouraging banks to manage their liquidity more proactively. Therefore, the first statement about increasing reliance on the overnight market is incorrect, while the second statement accurately reflects the committee's focus.

55. (A) Standing Deposit Facility (SDF) - Absorbs liquidity from the system without requiring banks to provide any collateral
The Standing Deposit Facility is unique because it allows the central bank to absorb excess liquidity without the need for providing government securities as collateral. This makes it an efficient tool for managing large surpluses. Other facilities like MSF inject liquidity and require collateral, while variable rate repos are typically used for frictional liquidity management rather than neutralizing persistent structural surpluses in the system.

56. (A) To ease redemption pressures on mutual funds and preserve financial stability amid capital market volatility
The Special Liquidity Facility for Mutual Funds was introduced to provide a liquidity backstop for mutual funds facing high redemption pressures. By enabling banks to provide funding against eligible collateral, the central bank ensured that mutual funds could meet their obligations without being forced to sell assets at distressed prices. This intervention was crucial for maintaining overall financial stability during extreme market stress.

57. (A) I and II only
The second stage of the LAF provided banks with normal liquidity at the Bank Rate and a backstop facility at a variable rate. These measures enhanced the flexibility of liquidity management for all participating institutions. However, export credit refinance was not abolished; it continued to be a part of the liquidity framework for several years. Thus, only the first two statements correctly describe the features.

58. (B) P-3, Q-4, R-2, S-1
The interim LAF was introduced in April 1999. The first stage of the full LAF followed in June 2000, and the second stage began in May 2001. The Market Stabilisation Scheme was later launched in April 2004. Each of these milestones represents a step toward a more sophisticated and market-oriented liquidity management system, allowing the central bank to better control short-term interest rates.

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59. (A) Only I
Net borrowings under the LAF are correctly calculated by subtracting total reverse repo deposits from total borrowings. However, Excess Reserves are calculated by subtracting Required Reserves from Actual Reserves. Reversing this subtraction would result in a negative number for a surplus position, which is conceptually incorrect. Therefore, only the first statement accurately describes the calculation used in the theoretical framework for liquidity.

60. (A) P-3, Q-1, R-2, S-4
Following regulatory interventions in March 2020, AAA-rated NBFCs saw their yield spreads fall by 170 bps, while AAA-rated PSUs and

26. (D) The sale of short-term government securities on condition that they will be repurchased after a given date
A repurchase operation, or repo, involves the sale of government securities with a simultaneous agreement to buy them back at a specified future date and price. In the context of open market operations, this serves as a collateralized loan. The central bank uses repos to inject short-term liquidity into the banking system, using the securities as necessary security for the transaction.

27. (A) Export Credit Refinance (ECR)
Banking Sector Liquidity is calculated using variables such as total borrowings under the Liquidity Adjustment Facility, total reverse repo deposits, and actual reserves maintained. Export Credit Refinance, while a source of liquidity, is not part of the core formula for determining BSL. The focus remains on net borrowings and excess reserves to evaluate the overall liquidity position of the system effectively.

28. (A) March 31, 2023
To help banks manage their investment portfolios during a period of volatile interest rates, the central bank raised the ceiling for government securities held in the Held to Maturity category. This limit was increased to 23% of net demand and time liabilities. Banks were allowed to maintain this higher limit until March 31, 2023, after which a phased restoration began for all banks.

29. (C) Net borrowings of banks under LAF (NBLAF) is calculated by adding Total Reverse Repo Deposits (RRD) to TBBLAF
Net borrowings of banks under the Liquidity Adjustment Facility are calculated by subtracting Total Reverse Repo Deposits from the Total Borrowings under LAF. Adding these figures would be mathematically incorrect for determining the net position. The framework relies on this subtraction to identify whether the banking system as a whole is a net borrower or a net lender in the market.

30. (D) To influence market incentives and the price discovery process among participating banks
Central banks maintain a spread between the rates for liquidity absorption and injection to encourage inter-bank trading. If these rates were identical, banks would have no incentive to trade with each other, relying solely on the central bank. This spread ensures that the market remains active, facilitating efficient price discovery and better transmission of monetary policy signals throughout the banking system.

31. (A) II, IV, I, III
The events occurred in the following sequence: First, IL&FS defaulted on its obligations in late 2018. This was followed by the collapse of DHFL. Later, in early 2020, the World Health Organisation declared COVID-19 a global pandemic. Finally, in April 2022, the central bank introduced the Standing Deposit Facility at 3.75% to manage the resulting persistent liquidity surplus in the system.

32. (B) Working Group on Operating Procedure of Monetary Policy (2011) - Dr. Raghuram Rajan
The Working Group on Operating Procedure of Monetary Policy in 2011 was actually chaired by Deepak Mohanty, not Dr. Raghuram Rajan. While Dr. Rajan has led other significant committees, this specific group focused on the single operating target and the corridor system. Correctly identifying leadership is essential for understanding the historical development and specific recommendations of various policy frameworks in India.

33. (B) It coincides with the cash reserve ratio (CRR) maintenance cycle
The 14-day term repo is used as the main liquidity tool because its duration aligns perfectly with the fortnightly maintenance cycle for the Cash Reserve Ratio. This synchronization allows banks to better plan their reserve requirements and manage liquidity over the entire reporting period. It reduces daily volatility and helps the central bank maintain the operating target more consistently and effectively.

34. (A) Only I
During the liquidity crisis facing mutual funds, banks were provided with regulatory benefits for deploying funds under the SLF-MF scheme. However, banks were not restricted to using only central bank funds; they were also encouraged to use their own resources to ease redemption pressures. Therefore, the statement regarding

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the restriction on using their own resources is incorrect, while the first statement is accurate.

35. (A) P-3, Q-1, R-2, S-4
Outright OMO purchases inject durable liquidity to offset deficits. The 14-day variable rate repo manages frictional liquidity requirements. The SLF-MF is specifically designed to ease redemption pressures on mutual funds, preserving stability. Finally, OMO sales are utilized to neutralize persistent liquidity surpluses by absorbing durable funds from the system, ensuring the operating target remains aligned with the policy rate during surpluses.

36. (B) I and II only
The 2019 Internal Working Group recommended that Standalone Primary Dealers participate in overnight operations and that the corridor system be maintained. However, it did not suggest that the daily primary operation should be a single overnight variable rate operation; instead, it emphasized 14-day operations. Thus, only the first two statements accurately reflect the core recommendations for the revised framework for liquidity.

37. (A) To balance system funds to achieve monetary policy goals of price stability with growth
The fundamental objective of a Liquidity Adjustment Framework is to manage the quantity and price of money in the banking system. By balancing liquidity, the central bank aims to ensure that short-term interest rates remain aligned with policy goals. This supports the broader mandate of maintaining price stability while fostering an environment conducive to sustainable economic growth and financial health overall.

38. (A) P-3, Q-2, R-1, S-4
The Market Stabilisation Scheme was introduced to manage liquidity from capital inflows. The Weighted Average Call Rate serves as the single operating target. Operation Twist involves simultaneous long-term purchases and short-term sales of securities. TLTRO 2.0 was specifically designed to channel liquidity to smaller entities, including NBFCs and MFIs, addressing specific sectoral credit needs during the economic downturn in the country.

39. (C) Both I and II
The Market Stabilisation Scheme was introduced in 2004 because large capital inflows created a massive liquidity surplus. The central bank's existing stock of government securities was insufficient to absorb this excess liquidity through standard reverse repo operations. By issuing MSS bonds, the government provided the central bank with an additional tool to effectively manage and sterilize the impact of these foreign exchange inflows.

40. (B) P-2, Q-4, R-1, S-3
The 2003 Internal Group recommended merging facilities. The 2011 Working Group proposed a 100 basis point corridor. The 2014 Expert Committee suggested moving away from overnight repos toward term repos. Finally, the 2019 Internal Working Group recommended replacing the fixed one percent NDTL target with variable rate operations. These milestones collectively shaped the evolution of India's current liquidity management framework and operational procedures.

41. (B) I and II only
Targeted Long Term Repo Operations addressed illiquidity premiums by requiring banks to invest in investment-grade corporate bonds and CPs. However, TLTRO 2.0 was not restricted to AAA-rated public sector undertakings; it specifically aimed to support smaller, non-AAA entities like NBFCs and microfinance institutions. Thus, while the first two statements are correct, the third statement regarding restricted investment in PSUs is false.

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42. (C) To maintain the efficiency of the price discovery process in the inter-bank money market
It is essential for banks to trade among themselves to ensure that the market correctly prices liquidity based on actual supply and demand. If banks only interacted with the central bank, the market's price discovery mechanism would weaken. An active inter-bank market provides a clearer signal of liquidity conditions, which is vital for the effective transmission of monetary policy signals everywhere.

43. (B) A positive BSL figure - Indicates that the system liquidity is in deficit
Under the standard liquidity framework, Banking Sector Liquidity is defined such that a positive value represents a deficit, while a negative value represents a surplus. This calculation is derived from net borrowings under the Liquidity Adjustment Facility minus excess reserves. Therefore, when the result is positive, it signifies that the banking system is a net borrower of funds from the central bank.

44. (C) P-2, Q-4, R-1, S-3
As of July 2020, NABARD availed Rs 22,000 crore, while the National Housing Bank utilized Rs 9,537 crore. SIDBI accessed Rs 7,935 crore through the special refinance windows. Additionally, banks deployed Rs 5,522 crore of their own resources under the SLF-MF scheme. These allocations provided critical support to various sectors of the economy during the pandemic-induced liquidity stress and high market volatility.

45. (C) II and III only
The 2011 Working Group recommended a policy corridor of 100 basis points and the Weighted Average Call Rate as the operating target. However, it did not suggest a surplus mode of 1% of NDTL; instead, it favored a system that could operate in both modes but predominantly sought a deficit mode for better policy transmission. Therefore, only the second and third statements are correct.

46. (B) A 14-day term repo/reverse repo operation at a variable rate
The revised framework, following the 2019 Internal Working Group's suggestions, established the 14-day variable rate term repo or reverse repo as the primary tool for managing frictional liquidity. This change shifted the focus away from overnight operations, allowing for more stable liquidity management that aligns with the fortnightly reserve maintenance cycle. It helps in smoothing out short-term fluctuations effectively for banks.

47. (B) Only II
The Internal Working Group emphasized that maintaining a minimum daily requirement for the Cash Reserve Ratio prevents banks from bunching their reserve needs at the end of the period, which would cause market volatility. However, the group recommended maintaining the current 90 per cent requirement rather than reducing it to 70 per cent. Thus, only the second statement regarding the benefits of averaging is correct.

48. (A) P-3, Q-1, R-4, S-2
Banking Sector Liquidity is the difference between net borrowings and excess reserves. Excess Reserves represent the surplus held over required levels. Required Reserves are the statutory balances banks must keep with the central bank. Net borrowings under LAF are calculated as total borrowings minus total reverse repo deposits. These definitions are central to measuring the overall liquidity stance within the banking system daily.

49. (A) Merged single standing liquidity facility (December 2003) - Policy Repo Rate
In December 2003, the normal and backstop facilities were merged into a single standing liquidity facility. However, the rate for this facility was linked to the repo rate, but the transition to the formal "Policy Repo Rate" terminology happened later in the evolution of the framework. The other options correctly reflect the historical evolution of rates like the Bank Rate and variable daily rates.

50. (C) P-2, Q-4, R-1, S-3
In the April 2022 announcement, the Standing Deposit Facility rate was set at 3.75%, while the Marginal Standing Facility rate was fixed at 4.25%. This created a policy corridor with a width of 50 basis points. Additionally, the ceiling for government securities held in the Held to Maturity category was increased to 23%, providing banks with more flexibility in managing their portfolios.

51. (D) I and III only
During the pandemic, abundant liquidity successfully anchored short-term yields near the repo rate. Special Open Market Operations, known as Operation Twists, were also effective in lowering the 10-year benchmark yield. However, the 3-month T-bill cut-off did not generally remain higher than the repo rate; it often fell below it due to the massive surplus liquidity in the system during those months.

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ANSWERS

1. (D) Weighted Average Call Rate (WACR)
The revised liquidity management framework identifies the weighted average call rate as the primary operating target. This rate reflects the overnight inter-bank money market conditions. By targeting this rate, the central bank ensures that the short-term interest rates align with the policy repo rate, facilitating effective monetary policy transmission across the financial system and the wider economy.

2. (C) It absorbs system liquidity without requiring the provision of government securities as collateral
The Standing Deposit Facility, introduced in April 2022, is a liquidity absorption tool. Unlike the reverse repo facility, it does not require the central bank to provide government securities as collateral to banks. This feature allows for unrestricted liquidity absorption, strengthening the floor of the policy corridor while managing persistent surpluses in the banking system during various periods.

3. (C) A tool that allows banks to borrow money through repurchase agreements to resolve short-term cash shortages
The Liquidity Adjustment Facility is a critical monetary policy tool used to manage day-to-day liquidity mismatches. It enables commercial banks to borrow money through repurchase agreements or park excess funds with the central bank. By adjusting the supply of money, this mechanism helps stabilize short-term interest rates and ensures smooth functioning within the financial system at all times.

4. (C) It restricts the use of SDF and MSF to the central bank's discretion, prohibiting bank initiation
The April 2022 monetary policy announcements clarified that the Standing Deposit Facility and Marginal Standing Facility are standing facilities. This means they are available at the discretion of the banks, not just the central bank. Banks can initiate these operations to manage their end-of-day liquidity positions, ensuring flexibility and stability within the newly narrowed policy corridor for the system.

5. (B) To raise short-term interest rates and maintain orderly conditions in the foreign exchange market
During the initial stage of the Liquidity Adjustment Facility, the reverse repo rate was positioned above the repo rate. This strategic placement was designed to elevate short-term interest rates. By increasing these rates, the central bank aimed to manage capital flows and maintain stability in the foreign exchange market during periods of high volatility and external economic pressure on currency.

6. (B) Infrastructure Leasing & Financial Services Ltd. (IL&FS)
To mitigate the economic impact of the pandemic, special refinance facilities were provided to All India Financial Institutions. These included NABARD, SIDBI, NHB, and the Export-Import Bank of India. IL&FS was excluded from this allocation as it was a defaulting entity whose crisis had previously triggered liquidity stress, necessitating different regulatory interventions rather than standard refinance support for credit flow.

(B) The reserves provided by a central bank to the banking system
Central bank liquidity refers specifically to the reserves that the monetary authority provides to the banking sector. These reserves are held in accounts at the central bank and are used by commercial banks to settle inter-bank obligations and meet statutory requirements. It is a fundamental component of the overall money supply and the essential process of commercial bank credit creation.

8. (B) It provided normal liquidity at the Bank Rate and a backstop facility at a variable daily rate
The second stage of the Liquidity Adjustment Facility, implemented in May 2001, introduced a dual-structured lending window. Banks could access normal liquidity at the prevailing Bank Rate. Additionally, a backstop facility was

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banks experienced a 147 bps drop. AAA-rated corporates had a reduction of 146 bps, and AA-rated corporates saw a fall of 138 bps. These significant declines reflect the effectiveness of targeted liquidity measures in easing stress across different segments of the bond market.

61. (C) I, II, III, and V only
The 2019 Group recommended maintaining the corridor system, keeping WACR as the target, and using OMOs for durable liquidity. It also suggested that the margin for reverse-repo transactions remain at zero. However, it did not recommend eliminating the difference between the repo and reverse-repo rates; instead, it sought to maintain a structured corridor to guide interest rates effectively through the system.

62. (D) Assertion (A) is false, but Reason (R) is true
Contrary to the assertion, non-AAA rated entities were not excluded from the market following the deployment of Targeted Long Term Repo Operations. In fact, evidence indicates that these operations helped ease financial stress for lower-rated borrowers. Their share of issuances actually increased, demonstrating that the liquidity support reached beyond just the highest-rated companies to stabilize the broader corporate credit market effectively.

63. (A) I, II, and III only
The revised framework removed the one-sided target, withdrew old repo formats, and made the 14-day variable rate operation the main tool. However, the Weighted Average Call Rate was not replaced by TREPS; it remains the single operating target of the liquidity management framework. Thus, the first three statements are correct, but the fourth statement regarding the change in target rate is incorrect.

64. (C) A 14-day term repo/reverse repo operation at a variable rate
To manage frictional liquidity and short-term cash flow mismatches, the central bank utilizes 14-day variable rate term repos or reverse repos. This tool is designed to provide or absorb liquidity over a fortnight, coinciding with the reserve maintenance cycle. It is more effective than daily fixed-rate operations for smoothing out volatility while ensuring that short-term interest rates remain stable.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
In the first stage of the LAF, setting the reverse repo rate higher than the repo rate was a deliberate policy choice. This unusual alignment was intended to push up short-term interest rates. By raising these rates, the central bank aimed to maintain stability in the foreign exchange market, preventing excessive volatility and capital outflows during a period of external economic pressure.

66. (A) Longer-term variable-rate reverse-repos and sell-buy Forex swaps
When facing a persistent liquidity surplus, the central bank can use longer-term variable-rate reverse repos and sell-buy foreign exchange swaps as alternatives to outright OMO sales. These tools effectively absorb durable liquidity from the system over an extended period. This helps in managing the surplus without necessarily impacting the long-term government bond yields as directly as outright market sales might.

67. (C) I, II, and III only
The first three statements accurately define the components of the liquidity framework, including the contents of total borrowings, the calculation of net borrowings, and the definition of excess reserves. However, the fourth statement is incorrect; Banking Sector Liquidity is actually calculated by subtracting Excess Reserves from Net Borrowings under LAF. Therefore, only the first three statements are technically correct in this framework.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
The 14-day variable rate operation was adopted as the main liquidity tool specifically because its duration matches the fortnightly cycle for Cash Reserve Ratio maintenance. This alignment allows banks to manage their liquidity needs more efficiently over the reporting period. By synchronizing these operations, the central bank can reduce daily fluctuations in the call money rate and improve monetary policy transmission.

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CHAPTER 11

Foreign Exchange Reserve Management

May/June 2023

1. Consider the following statements regarding the broad strategy for reserve management:

I. The broad strategy including currency composition and investment policy is decided by the Reserve Bank of India independently.

II. The risk management functions aim to ensure improved accountability and a culture of risk awareness across all operations.

III. The Reserve Bank monitors credit exposure vis-à-vis sanctioned limits in respect of approved counterparties continuously.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2014

2. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): The Reserve Bank strictly implements all necessary upgrades in the SWIFT Alliance Access system and complies with mandatory security control measures.

Reason (R): The Reserve Bank uses SWIFT as the messaging platform to settle its trades and communicate with counterparties, custodians, and business partners, requiring adherence to international security best practices.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

3. In the context of the rationale for holding foreign exchange reserves, all of the following represent reasons for maintaining reserves EXCEPT:

(A) Providing a robust cushion against severe external shocks as the domestic economy becomes increasingly open.
(B) Managing the inherent volatility associated with certain types of capital flows to maintain currency stability.
(C) Addressing the transactions motive that market-determined exchange rates cannot adequately manage.
(D) Mitigating the socio-economic pains of adjustment during temporary bottlenecks caused by broad structural shifts.

Oct/Nov 2020

4. Consider the following statements regarding the movements in Foreign Currency Assets (FCA):

I. Movements in the FCA occur mainly on account of purchase and sale of foreign exchange by the RBI.

II. External aid receipts of the Central Government have no impact on the FCA movements.

III. Changes on account of revaluation of the assets contribute to the movements in the FCA.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2018

5. A central bank's reserve management division holds dated foreign securities in its portfolio. At the end of the month, the market price of these securities increases due to a drop in global interest rates. According to the Reserve Bank of India's accounting practices, how should this appreciation be recorded?

(A) It should be recognized immediately as a

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78. (D) I, II, III, and V only
After the pandemic outbreak, markets were flush with liquidity, and the TREPS rate often stayed below the reverse repo rate. CD yields also fell below the repo rate. However, total outstanding CPs did not increase dramatically; instead, they actually declined as issuers moved toward other funding sources or reduced their overall borrowing. Therefore, while most statements are correct, statement IV is clearly inaccurate.

79. (C) Assertion (A) is true, but Reason (R) is false
The assertion correctly states that the Standing Deposit Facility absorbs liquidity without requiring collateral. However, the reason is incorrect because the SDF was introduced to serve as the floor of the policy corridor, not the upper end. The Marginal Standing Facility serves as the upper bound of the corridor. Therefore, while the first part of the statement is factually accurate, the second part is false.

80. (D) Assertion (A) is false, but Reason (R) is true
The choice between a deficit or surplus mode depends on the prevailing liquidity climate, not just the policy stance. However, the reason is correct in stating that under an inflation-targeting framework, monetary policy is primarily conducted through interest rate changes. The direction of the policy rate is the key signal, but operational liquidity management must adapt to the actual conditions in the system.

81. (C) Sell-buy Rupee-Dollar swaps
To neutralize a persistent liquidity surplus using foreign exchange operations, the central bank executes a sell-buy swap. In this transaction, it sells foreign currency to absorb domestic liquidity and simultaneously agrees to buy it back at a future date. This effectively removes excess rupees from the banking system for the duration of the swap, helping to manage structural liquidity surpluses effectively.

82. (A) I, II, III, and IV only
The history of the LAF includes the interim stage in 1999, the transition in 2000, the introduction of flexible repo rates, and the 2004 MSS. However, the 2014 Urjit Patel Committee actually recommended reducing, not increasing, the reliance on overnight repos. Therefore, the fifth statement is incorrect, while the first four accurately describe the major milestones in the development of the framework in India.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
A positive Banking Sector Liquidity figure indicates a deficit because it means banks are borrowing more from the central bank than they are holding in excess reserves. The formula for BSL, which subtracts Excess Reserves from Net Borrowings, confirms this relationship. When the result is positive, the banking system is a net recipient of central bank liquidity support to meet its operational requirements.

84. (C) The system liquidity is in deficit
Since Bank Alpha has a positive Banking Sector Liquidity value of Rs 5,500 crore, it signifies that the institution, and by extension the system it represents in this case, is in a deficit. In this state, the bank's reliance on central bank borrowing outweighs its surplus reserves. This requires the central bank to provide liquidity to ensure the smooth functioning of the payment system.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
During the pandemic, aggressive policy easing and massive liquidity surpluses pushed 3-month and 6-month CD yields below the policy repo rate. Banks found themselves with more than enough funds, which significantly reduced their need to issue Certificates of Deposit for financing. This lack of demand for additional funding, combined with the abundance of cheap liquidity, naturally drove down the yields on these instruments.

86. (B) I, II, III, and IV
All four statements correctly describe the regulatory environment and support measures implemented after 2018. The IL&FS default highlighted ALM issues, leading to partial credit enhancement for NBFC bonds. TLTRO 2.0 specifically targeted smaller entities and microfinance institutions, while special refinance facilities totaling Rs 65,000 crore were provided to major financial institutions like NABARD and SIDBI to support various sectors.

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effects), foreign exchange reserves decreased by US$ 18.2 billion.
III. There was a valuation gain of US$ 2.2 billion during this period.
IV. The total variation on a BoP basis during the corresponding period of the preceding year (April-June 2021) was an increase of US$ 31.9 billion.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2019

12. Consider the following statements regarding the legal framework for reserve management:
I. The law permits investment in debt instruments representing sovereign or sovereign-guaranteed liability with a residual maturity not exceeding 10 years.
II. Deposits with commercial banks overseas and the Bank for International Settlements (BIS) are legally permitted avenues for deploying foreign exchange reserves.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2021

13. Consider the following statements regarding the Operational Risk and Control System:
I. Key operational procedures are documented to ensure clear protocols.
II. Deal processing and settlement systems are exempt from internal control guidelines to ensure speedy execution.
III. Reconciliation of accounts is done regularly as part of independent monitoring.
IV. Financial accounts are audited periodically only by internal audit, with no external involvement.
V. The SWIFT messaging platform is utilized for sending financial messages to counterparties.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and V
(C) II, IV, and V
(D) I, III, IV, and V

Oct/Nov 2009

14. How are decisions regarding long-term exposure to different currencies primarily taken in the context of managing currency risk?
(A) By matching the exact currency composition of the country's diverse external commercial borrowing obligations.
(B) By solely pegging the portfolio to the US Dollar and Euro, as these are the primary intervention currencies.
(C) Decisions based on projected exchange rate movements and medium-to-long-term strategies.
(D) By liquidating the entire multi-currency portfolio into gold bullion at the end of each financial quarter.

May/June 2008

15. Match the Items in List I with their respective values (in US$ Billion) for the period April-June 2022 as per the sources of variation in foreign exchange reserves.
List I: (Item)
P. Current Account Balance
Q. Capital Account (net)
R. Foreign Direct Investment (FDI)
S. External Commercial Borrowings
List II: (Value in US$ Billion)
1. -2.9
2. -23.9
3. 28.5
4. 13.6
(A) P-2, Q-3, R-4, S-1
(B) P-3, Q-2, R-1, S-4
(C) P-2, Q-4, R-3, S-1
(D) P-4, Q-1, R-2, S-3

Oct/Nov 2017

16. The level of foreign exchange reserves primarily serves as an indicator of a country's comfort level in meeting which of the following international obligations?
(A) Payment for imports
(B) Repayment of external commercial borrowings
(C) Remittances by non-resident citizens
(D) Funding for outward foreign direct investment

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funds' holdings as collateral. These options provided the necessary flexibility to address the varied liquidity needs of different schemes during the crisis.

96. (B) Permitting banks to reckon government securities held by them up to an amount equal to their incremental outstanding credit to NBFCs and HFCs as Level-1 HQLA
To support the flow of credit to NBFCs and HFCs during the 2018 liquidity crunch, the central bank allowed banks to use their incremental credit to these sectors to meet liquidity coverage ratio requirements. Specifically, banks could treat a portion of their government security holdings as Level-1 High-Quality Liquid Assets. This regulatory change incentivized banks to continue lending to non-bank financial companies.

97. (A) After market hours on all days of the week
Following the April 2022 modifications, the Standing Deposit Facility and the Marginal Standing Facility were made available to banks on a 24/7 basis. This means banks can access these facilities after standard market hours on all days, including weekends and holidays. This change provides banks with much greater flexibility to manage their end-of-day liquidity positions and helps stabilize the inter-bank rate.

98. (B) Investment grade corporate bonds, CPs, debentures, and CDs
For transactions under the Special Liquidity Facility for Mutual Funds, the central bank defined specific eligible collateral. This included investment-grade corporate bonds, commercial papers, debentures, and certificates of deposit held by the mutual funds. By accepting these instruments as collateral, the central bank ensured that banks could safely provide liquidity to the funds while maintaining high standards for the quality of assets.

99. (D) Special Liquidity Facility for Mutual Funds (SLF-MF)
In 2020, to counter the redemption pressures caused by capital market volatility during the pandemic, the central bank introduced the Special Liquidity Facility for Mutual Funds. This facility provided banks with low-cost liquidity that had to be used specifically to support mutual funds. This targeted intervention was essential for preserving financial stability and preventing a systemic crisis within the broader mutual fund sector.

100. (D) It reduces the supply of paper in the market to that extent, thereby supporting bond prices
By allowing banks to move more securities into the Held to Maturity basket, the central bank reduces the volume of government bonds actively traded in the secondary market. This reduction in supply helps support bond prices and keeps yields stable. It also protects the banking sector's balance sheets from the volatility of mark-to-market losses during periods of rising interest rates.

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87. (B) As one single overnight variable rate operation
To minimize uncertainty and provide clear signals to the market, the Internal Working Group suggested that the daily primary liquidity operation should ideally be a single 14-day variable rate operation. This approach simplifies the process for banks and helps the central bank maintain the operating target more effectively. It reduces the need for multiple, staggered operations that can sometimes create confusing signals in the market.

88. (B) I, II, III, and V only
The 2022 policy measures established the SDF at the floor and the MSF at the ceiling, narrowing the corridor to 50 basis points. These facilities were also made available after market hours every day. However, the HTM ceiling was not permanently raised to 25%; it was increased to 23% with a planned phased restoration starting in 2024. Therefore, statement IV is incorrect here.

89. (B) Rs 500 crore
Based on the provided data, Bank Alpha maintains actual reserves that are Rs 500 crore above its required reserves. This figure represents the excess liquidity the bank holds beyond its statutory obligations. While the bank is also borrowing from the central bank, these excess reserves are a critical component in calculating the net banking sector liquidity and understanding the bank's overall cash position.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
The Weighted Average Call Rate is the target rate because it reflects the cost of unsecured funds in the call money market, where only banks and primary dealers trade reserves. Since this market deals exclusively in central bank reserves, it provides the most direct reflection of the liquidity conditions created by monetary policy. Targeting this rate ensures effective transmission of policy signals.

91. (B) Standing Deposit Facility (SDF)
In April 2022, the Standing Deposit Facility was introduced to replace the fixed-rate reverse repo as the floor of the policy corridor. The SDF rate was set 25 basis points below the policy repo rate. This facility allows the central bank to absorb excess liquidity without needing collateral, providing a more effective and flexible tool for managing the massive surpluses in the system.

92. (C) Targeted Long Term Repo Operations (TLTROs)
Targeted Long Term Repo Operations were specifically designed to encourage banks to invest in the corporate bond market during periods of stress. Banks availing funds under this facility were required to deploy them in fresh acquisitions of investment-grade corporate bonds, commercial papers, and non-convertible debentures. This measure aimed to reduce yield spreads and ensure that liquidity reached companies facing funding challenges effectively.

93. (D) It led to a pervasive risk aversion, resulting in increased funding costs and partial loss of market access
The 2018 default by a major infrastructure financier caused a sudden shift in market sentiment, leading to intense risk aversion among investors. For NBFCs and HFCs, this meant that funding costs spiked as lenders became wary of their asset-liability mismatches. Many entities experienced a partial loss of access to traditional funding markets, necessitating central bank intervention to restore confidence and ensure credit flow.

94. (C) Raised to 23% up to March 31, 2023, and restored to 19.5% in a phased manner ending Q4 FY24
The April 2022 policy update included a specific timeline for the Held to Maturity ceiling. Banks were allowed to keep up to 23% of their NDTL in the HTM basket until March 31, 2023. After this date, the limit was scheduled to be restored to the original 19.5% through a phased reduction process, which would be completed by the end of the 2023-24 financial year.

95. (A) Extending loans and undertaking outright purchase of and/or repos against eligible collateral held by MFs
Under the SLF-MF scheme, banks could assist mutual funds through several specific methods. They were permitted to extend direct loans to the funds or engage in the outright purchase of eligible securities. Additionally, they could conduct repurchase agreements using the mutual

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realized profit in the income statement for the current financial year.
(B) Transfer it to the Investment Revaluation Account (IRA) as a cushion against future price changes.
(C) It should be transferred to the Currency and Gold Revaluation Account (CGRA) to buffer against gold price fluctuations.
(D) It should be ignored for accounting purposes until the securities mature or are sold in the secondary market.

Oct/Nov 2011

6. A financial researcher is reconciling the sources of variation in foreign exchange reserves. They notice a discrepancy in the treatment of transfers under the current account when comparing the published table with older data sets. According to the official statistical notes, this difference is primarily attributed to which of the following?
(A) The exclusion of SDR allocations from the capital account.
(B) Changes resulting from the new format (BPM6) differing from the old format of BoP.
(C) The transition from reporting in Euros to reporting entirely in US dollars.
(D) The shifting of Foreign Direct Investment entirely into the Current Account Balance.

May/June 2024

7. Which of the following accurately describes the primary objectives of foreign exchange reserve management in India?
(A) Return optimization and risk minimization, with liquidity kept as a secondary goal.
(B) Safety and liquidity, with return optimization kept in view within this framework.
(C) Capital preservation and maximum yield generation, prioritizing domestic market stability.
(D) Exchange rate management and export promotion, with safety kept in view.

Oct/Nov 2006

8. During a sudden external shock, the Reserve Bank needs to raise cash immediately from its foreign exchange reserves. The portfolio contains US Treasury securities, fixed deposits with commercial banks overseas, and securities issued by supranational entities. Which asset class would typically be excluded from being considered capable of conversion into cash at very short notice?
(A) US Treasury securities
(B) Fixed deposits with commercial banks overseas
(C) Securities issued by supranational entities
(D) Gold deposits held in safe custody with the Bank of England

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May/June 2011

9. Based on the statistical notes to the movement in Foreign Exchange Reserves, identify the INCORRECT pair regarding the components of the reserves:
(A) FCA Valuation — Valued in terms of US dollars despite being maintained in a multi-currency portfolio.
(B) SDR Holdings of Reserve Bank — Excluded from SDR reporting and strictly merged into the Foreign Currency Assets (FCA).
(C) Exclusions from FCA — Investment in bonds issued by IIFC (UK) and amount lent under SAARC Swap Arrangement.
(D) RTP (Reserve Tranche Position) — The difference between the IMF's holdings of that country's currency and the country's IMF-designated quota.

Oct/Nov 2025

10. Which of the following accurately defines market risk for a multi-currency portfolio of foreign exchange reserves?
(A) The risk of loss arising from the default of a highly rated sovereign counterparty or a supranational institution.
(B) The inability to liquidate a large volume of treasury securities without significantly distorting the market price of assets.
(C) Portfolio valuation changes resulting from movements in interest rates, exchange rates, and gold prices.
(D) The risk of breakdowns in internal control systems during the deal capture and subsequent trade settlement stages.

May/June 2013

11. Consider the following statements regarding the variation in reserves during April-June 2022:
I. On a balance of payments basis (excluding valuation effects), foreign exchange reserves increased by US$ 4.6 billion.
II. In nominal terms (including valuation

(B) No, as the legal framework limits investments to a residual maturity not exceeding 10 years.
(C) Yes, provided the Central Board of the Reserve Bank grants specific approval for maturities exceeding the 10-year limit.
(D) No, because all sovereign debt investments are restricted strictly to the domestic government securities market.

May/June 2022

23. Consider the following statements regarding the valuation of foreign exchange reserves:
I. Gains and losses on the valuation of Foreign Currency Assets (FCA) due to exchange rate movements are booked under the Currency and Gold Revaluation Account (CGRA).
II. Dated foreign securities are valued at market prices as on the last business day of each week and month.
III. The appreciation or depreciation arising from the valuation of dated foreign securities is transferred to the Investment Revaluation Account (IRA).
IV. The balance in the CGRA provides a cushion against changes in security prices over the holding period.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Oct/Nov 2007

24. An analyst is reviewing the movement of Foreign Exchange Reserves between September 2021 and March 2022. According to the reported data, the total Forex Reserves stood at USD 635,363 million at the end of September 2021. What was the reported total Forex Reserves position at the end of March 2022?
(A) USD 640,394 Million
(B) USD 633,614 Million
(C) USD 631,863 Million
(D) USD 607,309 Million

May/June 2017

25. Which of the following statements accurately describes the operational risk control arrangements within the Reserve Bank's reserve management framework?
(A) The front office and back office functions are entirely consolidated to ensure faster deal capture and processing.
(B) Strict separation of front and back office functions, monitored by a concurrent audit system.
(C) Internal control systems mandate that all financial messages be routed through manual courier to maintain confidentiality.
(D) External statutory auditors are solely responsible for transaction settlement, removing the need for internal monitoring.

Oct/Nov 2015

26. Which statute provides the overarching legal framework for the deployment of foreign exchange reserves in different foreign currency assets and gold by the Reserve Bank of India?
(A) The Foreign Exchange Management Act, 1999
(B) The Banking Regulation Act, 1949
(C) The Government Securities Act, 2006
(D) The Reserve Bank of India Act, 1934

May/June 2020

27. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): Foreign exchange reserves are denominated and expressed in US dollar terms.
Reason (R): Both the US dollar and Euro are intervention currencies, and the Foreign Currency Assets are maintained exclusively in US dollars to prevent currency risk.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

28. Identify the correct pair regarding the accounting heads used for booking gains and losses in foreign exchange reserves:
(A) Buffer against exchange rate and gold price fluctuations — Currency and Gold Revaluation Account (CGRA)
(B) Gains and losses on valuation of FCA and

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May/June 2016

17. Arrange the following months in the chronological order of the total Forex Reserves from the highest absolute value to the lowest absolute value, based on the data provided for the period September 2021 to March 2022:

I. October 2021
II. September 2021
III. December 2021
IV. March 2022

(A) I, II, III, IV
(B) II, I, III, IV
(C) I, III, II, IV
(D) III, II, I, IV

Oct/Nov 2018

18. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): The basic objective of continuously monitoring developments regarding counterparties is to assess whether their credit quality is under potential threat.

Reason (R): The Reserve Bank's investments represent debt obligations of highly rated sovereigns, central banks, and supranational entities, eliminating the need for strict credit exposure limits.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

19. Match the items in List I with their corresponding descriptions in List II regarding Transparency and Disclosures.

List I: (Item)

P. SDDS template
Q. Half-yearly reports
R. Weekly Statistical Supplements
S. Reserve Bank's transparency approach

List II: (Description)

1. Prepared with reference to the position as at end-March and end-September each year.
2. Used for periodic press releases of data relating to foreign exchange reserves.
3. Adopted for publication of detailed reserve data on a monthly basis.
4. Closely follows international best practices.

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2022

20. Which of the following statements regarding liquidity risk in the management of foreign exchange reserves is INCORRECT?

(A) Fixed deposits with the BIS and overseas commercial banks are the most liquid assets for immediate conversion.
(B) Liquidity risk involves the inability to sell an instrument or close a position without facing significant costs.
(C) Treasury securities in certain markets can be liquidated in large volumes without much price distortion, making them highly liquid.
(D) The choice of specific financial instruments determines the overall liquidity profile of the foreign exchange portfolio.

May/June 2010

21. Which of the following best explains the primary cause for the valuation loss of US$ 22.7 billion during April-June 2022 as reported in the comparative position of variation in reserves?

(A) The substantial default of sovereign debt papers held in the portfolio.
(B) The massive outflow of Foreign Institutional Investment (FII).
(C) The appreciation of the US dollar against major currencies.
(D) The depletion of gold reserves held internationally.

Oct/Nov 2012

22. A portfolio manager at the Reserve Bank of India is evaluating a sovereign-guaranteed debt paper for deploying a portion of foreign exchange reserves. The debt instrument is highly rated but has a residual maturity of 12 years. Under the existing legal framework, can this instrument be selected for investment?

(A) Yes, because it is a sovereign-guaranteed liability which inherently carries negligible credit risk in most markets.

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69. (A) Rs 5,500 crore
To find the Banking Sector Liquidity, first calculate Net Borrowings by subtracting the reverse repo deposits of Rs 2,000 crore from the total borrowings of Rs 8,000 crore, which equals Rs 6,000 crore. Then, subtract the excess reserves of Rs 500 crore from this net borrowing figure. The resulting BSL is Rs 5,500 crore, indicating the bank's net liquidity position in the system.

70. (C) I, II, III, and V only
Initiatives like Operation Twist, LTROs, and TLTROs were successful in lowering yields and easing market access for corporates. However, the statement about the term premium is incorrect; the term premium up to one year actually turned negative following the LTRO announcements. Therefore, while statements I, II, III, and V are correct, statement IV is false based on the recorded market data.

71. (A) Their funding structure and Asset Liability Management (ALM) mismatches
The 2018 default by a major infrastructure finance company highlighted critical weaknesses in the NBFC sector, particularly regarding how they funded long-term assets with short-term liabilities. This asset-liability mismatch created significant liquidity risks when market sentiment turned negative. The crisis led to a broader re-evaluation of the funding models used by non-bank financial companies to ensure better long-term stability and resilience.

72. (B) I and III only
In April 2022, the Standing Deposit Facility was introduced as the corridor floor at 3.75%, allowing for liquidity absorption without collateral. However, the policy corridor was actually narrowed to 50 basis points, not widened to 65. Additionally, the SDF and MSF were made available after market hours, not just during regular hours. Consequently, only the first and third statements are accurate in this context.

73. (C) Assertion (A) is true, but Reason (R) is false
While it is true that Operation Twist involves simultaneous buying of long-term and selling of short-term securities, the objective was not to steepen the yield curve or constrain market access. Instead, these operations were conducted to flatten the yield curve and lower long-term interest rates. This was intended to make long-term borrowing cheaper and facilitate better transmission of monetary policy signals.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
The Market Stabilisation Scheme was essential because the massive influx of foreign capital created excess liquidity that the central bank could not absorb using its own limited stock of securities. By issuing MSS bonds on behalf of the government, the Reserve Bank gained a necessary tool to sterilize the liquidity impact. This ensured that capital inflows did not lead to an uncontrolled money supply.

75. (D) Durable liquidity surplus
When the banking system liquidity surplus becomes persistent and exceeds a specific threshold, such as 0.5 per cent of NDTL, it is classified as a durable liquidity surplus. Unlike frictional surpluses, which are temporary and caused by short-term cash flow mismatches, a durable surplus requires more permanent absorption measures, such as OMO sales or long-term reverse repos, to maintain effective monetary control.

76. (D) II, III, and IV only
Guiding principles emphasize that unanticipated developments require variable rate operations and that most operations should be overnight to minimize market intervention. It is also vital that inter-bank rates do not fall below the central bank's absorption rate. However, the choice of deficit or surplus mode depends on the liquidity climate rather than just the policy stance. Thus, statements II, III, and IV are correct.

77. (D) Weighted Average Call Rate (WACR)
The Weighted Average Call Rate is the designated single operating target for the liquidity management framework. This rate represents the cost of unsecured overnight funds in the inter-bank market. By keeping the WACR close to the policy repo rate, the central bank ensures that its monetary policy signals are effectively transmitted through the financial system and the wider economy consistently and reliably.

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gold due to exchange rate movements — Investment Revaluation Account (IRA)
(C) Appreciation and depreciation of dated foreign securities valued at market prices — Currency and Gold Revaluation Account (CGRA)
(D) Cushion against credit default of approved counterparties — Investment Revaluation Account (IRA)

May/June 2006

29. The half-yearly reports on the management of foreign exchange reserves published by the Reserve Bank of India are prepared with reference to the position as at the end of which two months each year?
(A) June and December
(B) April and October
(C) March and September
(D) January and July

Oct/Nov 2008

30. In managing interest rate risk for a foreign exchange reserve portfolio, how is the interest rate sensitivity of the portfolio primarily identified?
(A) By calculating the maximum possible credit default swap spread for sovereign debt.
(B) By analyzing the volatility of gold prices over a specific holding period.
(C) In terms of the total volume of daily SWIFT payment instructions generated.
(D) In terms of the benchmark duration and the permitted deviation from the benchmark.

May/June 2012

31. What was the Assets to Liability Ratio (%) as of end-March 2022 (Provisional) according to the Overall International Investment Position of India?
(A) 70.8%
(B) 73.5%
(C) 71.9%
(D) 72.4%

Oct/Nov 2005

32. Consider the following statements regarding the management of gold reserves as at end-March 2022:
I. The Reserve Bank held a total of 760.42 metric tonnes of gold.
II. 453.52 metric tonnes of gold are held domestically.
III. 295.82 metric tonnes of gold are held overseas in safe custody.
IV. In value terms (USD), the share of gold in total forex reserves increased to about 7.01 per cent as at end-March 2022.
Which of the above statement(s) is/are correct?
(A) I and IV only
(B) II and III only
(C) I, II, and IV
(D) I, III, and IV

May/June 2014

33. Based on the Overall International Investment Position of India as of end-March 2022, the total external assets were USD 920.6 billion and total external liabilities were USD 1280.4 billion. As an analyst evaluating the country's external position, how would you report the Net IIP for this period?
(A) Positive USD 359.8 billion
(B) Negative USD 359.8 billion
(C) Negative USD 355.2 billion
(D) Positive USD 920.6 billion

Oct/Nov 2021

34. All of the following acronyms correspond accurately to their expanded forms in the context of international financial arrangements EXCEPT:
(A) NAB — New Arrangements to Borrow (International)
(B) NPA — Note Purchase Agreement (IMF)
(C) FTP — Financial Transaction Plan (Standard)
(D) IIFC — International Investment Finance Company

May/June 2009

35. What was the impact of the variation in the exchange rate of the rupee vis-à-vis other currencies on liabilities during Q4:2021-22?
(A) It significantly changed liabilities in US$ terms as the rupee depreciated by 2.02 per cent.
(B) It had no significant impact on valuations because all liabilities are strictly hedged in euros or yen.
(C) It caused an artificial decrease in debt liabilities due to the rupee appreciating by 2.02 per cent against the SDR.
(D) It offset the entire reduction in portfolio

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investment, leading to a substantial net gain in total country liabilities.

Oct/Nov 2010

36. Consider the following statements:

I. Maldives availed a swap of USD 250 million on December 29, 2020, for six months, which eventually matured on December 29, 2021, after the first roll over.

II. Sri Lanka availed a swap of USD 400 million on January 13, 2022, for three months with maturity falling on April 18, 2022.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2007

37. Consider the following statements regarding the Reserve Bank's forward outstanding position:

I. The net forward asset (payable) of the Reserve Bank in the domestic foreign exchange market stood at USD 68.20 billion as at the end of March 2021.

II. The reported figure of USD 68.20 billion represents a net forward receivable position.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2016

38. Consider the following statements:

I. During the financial year 2021-22, there was a decline of US$ 16.1 billion in portfolio investment.

II. Despite this decline, international financial liabilities increased on the back of a large rise in direct investment in India and other investments.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2019

39. Match the deployment pattern of Foreign Currency Assets in List I with their corresponding values as of end-March 2022 from List II.

List I: (Asset Category)
P. Total FCA
Q. Securities
R. Deposits with other central banks & BIS
S. Deposits with commercial banks overseas

List II: (Value in USD Billion)
1. USD 37.16 billion (37,155 million)
2. USD 140.54 billion (140,538 million)
3. USD 363.03 billion (363,031 million)
4. USD 540.72 billion (540,724 million)

(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2013

40. An economic advisory panel is analyzing India's vulnerability to external shocks. They note that the import cover provided by foreign exchange reserves has shifted from 14.6 months in September 2021 to 13.1 months in December 2021. What does this specific metric indicate in the context of reserve adequacy?

(A) The ratio of volatile capital outflows calculated against the total import bill of the most recent financial quarter.
(B) The projected time required for all existing external commercial borrowings to mature and settle payments for imports.
(C) The absolute decline in the gross domestic product that is directly attributed to increased global import costs.
(D) The duration a country can sustain imports using only its current foreign exchange reserves.

May/June 2015

41. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): The present level of foreign exchange reserves acts as a source of comfort by providing a measure of insulation against unforeseen external shocks.

Reason (R): It helps meet the precautionary motive and satisfies the need for liquidity, which instils confidence in the Indian economy among international investors.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of

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Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

42. Match the external asset components in List I with their corresponding values (in US$ billion) as of end-March 2022 from List II.
List I: (Component)
P. Direct Investment
Q. Portfolio Investment
R. Other Investment
S. Reserve Assets
List II: (Value in US$ Billion)
1. 10.6
2. 211.6
3. 607.3
4. 91.1
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

May/June 2023

43. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): A significant portion of the Reserve Bank's gold is held overseas in safe custody with the Bank of England and the Bank of International Settlements (BIS).
Reason (R): Overseas storage guarantees a higher valuation of gold when transferring the appreciation to the Currency and Gold Revaluation Account.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2014

44. A credit rating agency is assessing the debt burden of the country. They observe the share of debt liabilities in total external liabilities as of end-March 2022. According to the reported figures, how should the agency document the movement of this share compared to the previous quarter?
(A) It decreased significantly from 55.0 per cent to 49.2 per cent.
(B) It remained completely static at 48.5 per cent.
(C) It crossed the 60 per cent threshold, triggering an automatic downgrade.
(D) It increased marginally to 49.2 per cent from 48.5 per cent a quarter ago.

May/June 2005

45. The Royal Monetary Authority of Bhutan requires short-term liquidity and approaches the Reserve Bank of India under the SAARC Swap Arrangement. They originally availed a swap of USD 200 million on March 15, 2021, and rolled it over twice for three months each. When did this specific rolled-over swap finally mature?
(A) June 15, 2021
(B) September 15, 2021
(C) December 15, 2021
(D) March 17, 2022

Oct/Nov 2020

46. India's International Investment Position (IIP) is best defined as which of the following?
(A) A dynamic flow matrix capturing all daily domestic foreign exchange market interventions.
(B) A summary of the stock of a country's external financial assets and liabilities at a specific point in time.
(C) An accounting of the internal fiscal deficit converted into US dollars at the current market rate.
(D) A ledger tracking exclusively the external commercial borrowing activities of the domestic private sector.

May/June 2018

47. Identify the correct pair representing the transactions under the Financial Transaction Plan (FTP) of the IMF during September 2021-March 2022:
(A) Purchase Transactions — USD 22.56 million
(B) Purchase Transactions — USD 172.15 million
(C) Repurchase Transactions — USD 172.15

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million
(D) Repurchase Transactions — USD 4,440.91 million

Oct/Nov 2011

48. Consider the following statements regarding the adequacy of reserves:
I. Foreign exchange reserves cover of imports declined to 13.1 months at end-December 2021.
II. The ratio of short-term debt (original maturity) to reserves decreased to 16.5 per cent at end-December 2021.
III. The ratio of volatile capital flows to reserves increased to 65.0 per cent at end-December 2021.
IV. Volatile capital flows include cumulative portfolio inflows and outstanding short-term debt.
V. Foreign exchange reserves cover of imports was 14.6 months at end-September 2021.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

May/June 2024

49. An auditor is validating the physical and deposited gold held by the Reserve Bank at end-March 2022. The total gold held is reported as 760.42 metric tonnes, which includes certain gold deposits. What is the exact quantum of these gold deposits included in the total figure?
(A) 5.88 metric tonnes
(B) 11.08 metric tonnes
(C) 37.16 metric tonnes
(D) 66.90 metric tonnes

Oct/Nov 2006

50. Match the international financial asset components of Indian residents in List I with their respective increase amounts during 2021-22 from List II.
List I: (Asset Component)
P. Reserve assets
Q. Direct investment
R. Trade credits
S. Overall rise in overseas assets of Indian residents
List II: (Increase Amount)
1. US$ 13.0 billion
2. US$ 17.7 billion
3. US$ 30.3 billion
4. US$ 61.1 billion
(A) P-3, Q-2, R-1, S-4
(B) P-4, Q-1, R-2, S-3
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-3, R-4, S-1

May/June 2011

51. The Reserve Bank of India holds a mandate to invest in bonds issued by the India Infrastructure Finance Company (UK) Limited. What is the maximum limit up to which the Reserve Bank can invest in these bonds?
(A) USD 1.44 billion
(B) USD 3.90 billion
(C) USD 5.00 billion
(D) USD 10.00 billion

Oct/Nov 2025

52. According to the International Investment Position data, the component "Other Investment" under Assets includes all of the following EXCEPT:
(A) Trade Credits
(B) Loans
(C) Currency and Deposits
(D) Debt Securities

May/June 2013

53. Which of the following statements regarding the quarterly variations in Q4:2021-22 is INCORRECT?
(A) Foreign assets of Indian residents declined primarily due to a major decrease of US$ 26.3 billion in total reserve assets.
(B) Direct, portfolio, and other investments such as trade credit and currency deposits showed an increase during the period.
(C) The decline in foreign liabilities was primarily due to a reduction in foreign direct investment.
(D) Even though reserve assets declined, they accounted for approximately two-thirds of the total international financial assets of India.

Oct/Nov 2019

54. Based on the deployment pattern of Foreign Currency Assets as of end-March 2022, which of the following instruments/categories constitutes the largest share (67.14%) of the FCA portfolio?

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(A) Deposits with commercial banks overseas
(B) Deposits with other central banks & BIS
(C) Securities
(D) SDR holdings of the Reserve Bank

May/June 2021

55. The ratio of India's international financial assets to international financial liabilities increased to what percentage in March 2022 from 70.8 per cent a year ago?
(A) 71.5 per cent
(B) 71.9 per cent
(C) 72.4 per cent
(D) 73.0 per cent

Oct/Nov 2009

56. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): The Net IIP as at end-March 2022 was negative, implying that the sum of all external liabilities is more than that of the external assets.
Reason (R): There has been a decrease in the negative gap on a year-on-year basis between end-March 2021 and end-March 2022.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

57. Consider the following statements regarding India's commitments with the IMF:
I. India committed to provide resources up to SDR 4,440.91 million under the IMF's New Arrangements to Borrow (NAB).
II. Effective January 01, 2021, the size of IMF's NAB has been halved.
III. India's commitment under NAB stood at SDR 8,881.82 million as on March 31, 2022.
IV. RBI subscribed to Notes equivalent to SDR 88.62 million under NAB till end-March 2022.
V. Under the Note Purchase Agreement (NPA) 2020, RBI agreed to invest an amount equivalent to USD 3.90 billion in SDR denominated Notes.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

Oct/Nov 2017

58. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): Net claims of non-residents on India increased by US$ 5.6 billion during Q4:2021-22.
Reason (R): This rise in net claims was primarily due to a larger increase in foreign-owned assets in India compared to the growth of Indian residents' overseas financial assets during the same period.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

59. The foreign currency assets (FCA) are best described as:
(A) Single-currency financial assets held exclusively in short-term US Treasury bills.
(B) Illiquid investments locked into long-term sovereign infrastructure development projects.
(C) Multi-currency, multi-asset portfolios held according to best international investment practices.
(D) Physical gold holdings that are subsequently converted into equivalent US dollar valuations.

Oct/Nov 2018

60. Consider the following statements regarding the annual variations for 2021-22:
I. Non-residents' net claims on India increased by US$ 4.6 billion.
II. The rise in foreign-owned assets in India

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exceeded the rise in overseas assets of Indian residents.
III. International financial assets of Indian residents increased primarily due to an increase in portfolio investment.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2025

61. A committee is sitting to decide the broad strategy for reserve management, specifically the currency composition and investment policy. Who must the Reserve Bank consult before finalizing this broad strategy?
(A) The International Monetary Fund (IMF)
(B) The Bank for International Settlements (BIS)
(C) The Government of India
(D) The Foreign Exchange Dealers' Association of India (FEDAI)

Oct/Nov 2022

62. When foreign exchange reserves increased by US$ 4.6 billion on a "balance of payments basis" during April-June 2022, what specific statistical adjustment distinguishes this figure from the "nominal terms" figure?
(A) It excludes valuation effects arising from currency exchange rate movements.
(B) It includes the depreciation of domestic gold reserves.
(C) It exclusively captures the foreign direct investment minus portfolio investment.
(D) It includes only the transactions executed through the SAARC Swap Arrangement.

May/June 2010

63. Match the components of Forex reserves in List I with their respective approximate values as on 07 Oct 2022 from List II.

List I: (Component)
P. Foreign Currency Assets (FCA)
Q. Gold Reserves
R. SDRs (Special Drawing Rights)
S. Total Forex Reserves

List II: (Approximate Value)
1. US$ 17.582 Billion
2. US$ 38.995 Billion
3. US$ 471.496 Billion
4. US$ 532.838 Billion

(A) P-3, Q-2, R-1, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-4, R-1, S-3

Oct/Nov 2012

64. Consider the following statements regarding the annual variations in 2021-22:
I. During the financial year 2021-22, there was a decline of US$ 16.1 billion in portfolio investment.
II. Despite this decline, international financial liabilities increased on the back of a large rise in direct investment in India and other investments.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2022

65. Consider the following statements regarding the operational risk and control system:
I. There is a comprehensive reporting mechanism covering significant areas of activity.
II. Reports are provided to the senior management periodically, at frequent intervals.
III. The internal control guidelines apply to the deal processing and settlement system, including payment instructions.
IV. The concurrent audit system is explicitly excluded from monitoring compliance in respect of internal control guidelines.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

Oct/Nov 2007

66. Consider the following statements regarding gold custody:
I. 453.52 metric tonnes of gold is held overseas in safe custody.
II. The overseas gold is held with the Bank of England and the Bank of International Settlements (BIS).
III. Domestic gold holdings amount to 760.42

NODIA

metric tonnes.
IV. The total gold holding includes gold deposits of 11.08 metric tonnes.
Which of the above statement(s) is/are correct?
(A) I, II, and IV
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, and III

May/June 2017

67. In early 2022, global geopolitical tensions involving Ukraine and Russia caused a surge in the strength of the US dollar. To mitigate the adverse impact on the domestic currency, how did the Reserve Bank of India primarily respond during this period?
(A) By purchasing large quantities of Russian Rubles to diversify the portfolio.
(B) By increasing external commercial borrowings to boost Forex levels.
(C) By aggressively selling US dollar reserves to stabilize the Rupee.
(D) By halting all gold valuation transfers to the CGRA.

Oct/Nov 2015

68. An economist is calculating the proportion of Foreign Currency Assets (FCA) to total Forex Reserves for December 2021. The FCA was reported as USD 569,889 million and the total reserves were USD 633,614 million. If the economist also needs to factor in the RTP, what value of RTP should they use for December 2021 from the provided data?
(A) 5070
(B) 5207
(C) 5188
(D) 5178

May/June 2020

69. Consider the following statements regarding External Liabilities as of end-March 2022 (Provisional):
I. Total Liabilities stood at USD 1,280.4 billion.
II. Direct Investment accounted for USD 521.7 billion.
III. Portfolio Investment was higher than Direct Investment, standing at USD 530.0 billion.
IV. Other Investment stood at USD 496.4 billion.
V. Debt securities under Portfolio Investment stood at USD 106.0 billion.
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V
(B) I, III, IV, and V
(C) II, III, and V
(D) I, II, and IV

Oct/Nov 2024

70. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): Movement in gold prices represents a major source of market risk for central banks managing multi-currency portfolios.
Reason (R): Gold is held exclusively in domestic vaults, exposing it to localized physical security risks rather than global financial market price changes.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

71. Based on the notes to the Deployment Pattern of Foreign Currency Assets, which of the following is NOT explicitly excluded from the reported FCA figures?
(A) Fixed deposits placed with the Bank for International Settlements (BIS)
(B) Investment in bonds issued by IIFC (UK)
(C) SDR holdings of the Reserve Bank
(D) Amount lent under SAARC Swap Arrangement

Oct/Nov 2008

72. The Reserve Bank identifies a novel debt instrument issued by a highly rated supranational entity that does not strictly fall into the explicitly listed categories of deposits or sovereign bonds under the Act. Can the Reserve Bank legally invest foreign exchange reserves in this new instrument?
(A) No, investments are strictly limited to sovereign bonds and central bank deposits without exception.

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R. Short term credit
S. Valuation change

List II: (Description/Value)
1. Stood at 19.0 US$ Billion
2. Recorded a massive outflow of -14.7 US$ Billion
3. Recorded a positive inflow of 8.8 US$ Billion
4. Reflected a loss of -22.7 US$ Billion

(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2014

86. The essential legal framework for reserve management is provided under which specific sub-sections of the Reserve Bank of India Act, 1934?
(A) 17(1), 17(2), 17(3) and 33 (1)
(B) 17(6A), 17(12), 17(12A), 17(13) and 33 (6)
(C) 18(1A), 18(2), 19(1) and 34 (2)
(D) 21(3), 22(1), 24(2A) and 35 (4)

May/June 2005

87. Which of the following best explains the decline in India's foreign liabilities during the quarter Q4:2021-22?
(A) A massive repayment of external assistance and multilateral loans.
(B) Reduction in portfolio investment as well as currency and deposits.
(C) Expropriation of foreign direct investments by the state.
(D) Conversion of all short-term debt into long-term sovereign guarantees.

Oct/Nov 2020

88. Which of the following statements correctly distinguishes the purposes of the Currency and Gold Revaluation Account (CGRA) and the Investment Revaluation Account (IRA)?
(A) CGRA provides a cushion against changes in security prices, while IRA buffers against gold price fluctuations.
(B) CGRA buffers exchange rate and gold fluctuations; IRA cushions changes in security prices.
(C) CGRA is strictly for managing credit risk, while IRA is utilized for managing operational risk.
(D) CGRA records realized trading profits, while IRA records only interest income from sovereign bonds.

May/June 2018

89. While reviewing the IIP data, an analyst notes that "Reserve Assets" form a major part of total external assets. What was the value of Reserve Assets out of the total assets of 920.6 billion as of end-March 2022?
(A) 577.0 billion
(B) 607.3 billion
(C) 635.4 billion
(D) 211.6 billion

Oct/Nov 2011

90. Arrange the following months in order of their reported Gold reserve values from the lowest to the highest, based on the data provided for September 2021 to March 2022:
I. January 2022
II. December 2021
III. October 2021
IV. March 2022
(A) III, I, II, IV
(B) I, III, II, IV
(C) III, II, I, IV
(D) II, I, III, IV

May/June 2024

91. Which of the following statements correctly captures the relationship between reserves and structural shifts in the economy during a transition period?
(A) Reserves are completely irrelevant during structural shifts as market rates adjust instantly without friction in open economies.
(B) Reserves mitigate adjustment pains when structural shifts release strong excess demand.
(C) Reserves exacerbate temporary bottlenecks by restricting the free flow of capital into essential infrastructure projects.
(D) Reserves are primarily useful for the transactions motive, which is significantly amplified during structural shifts.

Oct/Nov 2006

92. Consider the following statements regarding the Note Purchase Agreement (NPA) 2020:
I. It is an agreement entered into between the RBI and the IMF.
II. RBI has agreed to invest an amount

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March 2022 stood at a negative USD 359.8 billion.
Reason (R): The total external financial assets held by India were significantly lower than the total external liabilities at that point in time.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2016

80. Based on the "Movement in Foreign Exchange Reserves" data, identify the INCORRECT pair regarding the month-end values for March 2022:
(A) FCA — 540724
(B) Gold — 42551
(C) Total Forex Reserves — 607309
(D) SDR — 5143

May/June 2019

81. Match the deployment pattern categories of FCA in List I with their respective percentage share to total FCA as of end-March 2022 from List II.
List I: (FCA Category)
P. Securities
Q. Deposits with other central banks & BIS
R. Deposits with commercial banks overseas
S. FCA investment in IIFC (UK) bonds
List II: (Percentage Share)
1. Excluded from FCA reporting under this table
2. 67.14 %
3. 25.99 %
4. 6.87 %
(A) P-2, Q-3, R-4, S-1
(B) P-3, Q-2, R-1, S-4
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-4, R-3, S-1

Oct/Nov 2013

82. The risk management functions for foreign exchange reserves aim at developing a sound governance structure. Which of the following is NOT explicitly stated as a core aim of this structure?
(A) Maximizing speculative trading profits
(B) In line with the best international practices
(C) Improved accountability
(D) Efficient allocation of resources

May/June 2015

83. A sudden hike in global interest rates causes a decline in the market value of bonds held in the FCA portfolio. To protect the value of investments from such adverse impacts, the Reserve Bank monitors a specific metric. Which metric is actively tracked to identify the interest rate sensitivity of the portfolio?
(A) The daily aggregate turnover volume of payment instructions sent via the SWIFT messaging platform.
(B) The fluctuating ratio of volatile capital flows to total reserves during specific quarterly intervals.
(C) The net forward asset position of the central bank in the domestic foreign exchange market.
(D) The benchmark duration and the permitted deviation from that specific benchmark.

Oct/Nov 2023

84. Match the reserve adequacy indicators in List I with their corresponding percentage/ratio at end-December 2021 from List II.
List I: (Indicator)
P. Import cover (in months)
Q. Ratio of short-term debt to reserves
R. Ratio of volatile capital flows to reserves
S. Ratio of India's international assets to liabilities (as of March 2022)
List II: (Value/Percentage)
1. 18.1 per cent
2. 65.0 per cent
3. 13.1 months
4. 71.9 per cent
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-3, R-2, S-1

May/June 2023

85. Match the items reflecting the sources of variation in foreign exchange reserves in List I with their corresponding correct statements/ values from List II as per the April-June 2022 data.
List I: (Source of Variation)
P. Foreign Institutional Investment (FII)
Q. Banking Capital

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(B) Yes, provided it is approved by the Central Board of the Reserve Bank in accordance with the provisions of the Act.
(C) Yes, but only if the maturity of the instrument is less than one year.
(D) No, supranational entity instruments are explicitly banned under the FEMA guidelines.

May/June 2012

73. Which of the following statements is INCORRECT regarding the footnotes on the sources of variation in foreign exchange reserves?
(A) The old format of BoP may differ from the new format (BPM6) in the treatment of transfers under the current account.
(B) ADRs/GDRs are treated under portfolio investment in the new format context.
(C) Differences in totals, if any, are due to rounding off.
(D) "Other items in capital account" strictly excludes SDR allocation and advances received pending issue of shares under FDI.

Oct/Nov 2005

74. What is the fundamental principle applied in the Reserve Bank's operational risk control arrangements to prevent fraud and ensure checks at various stages of deal execution?
(A) Outsourcing all back-office functions to foreign commercial banks.
(B) Merging deal capture and deal processing into a single automated system without human oversight.
(C) Total separation of the front office and the back-office functions.
(D) Relying exclusively on external statutory auditors for daily settlement processing.

May/June 2014

75. The investment committee is reviewing the diversification of the Forex portfolio. They observe that the share of gold in total foreign exchange reserves (in value terms) has shifted from end-September 2021 to end-March 2022. What was the exact nature of this shift?
(A) Decreased from 7.01 per cent to 5.88 per cent.
(B) Remained strictly pegged at 6.00 per cent to match IMF quotas.
(C) Increased from 4.6 per cent to 13.1 per cent.
(D) Increased from about 5.88 per cent to about 7.01 per cent.

Oct/Nov 2021

76. According to the reported data, what was the approximate value of India's total foreign exchange (Forex) reserves standing as on 07 Oct 2022?
(A) US$ 471.496 Billion
(B) US$ 532.838 Billion
(C) US$ 607.309 Billion
(D) US$ 640.394 Billion

May/June 2009

77. During Q4:2021-22, a significant rise in net claims of non-residents on India was recorded. An internal RBI memo explains this as being due to a larger decline in Indian residents' overseas financial assets compared to the decline in foreign-owned assets in India. What were the respective decline amounts cited for Indian residents' overseas assets and foreign-owned assets in India?
(A) US$ 26.3 billion and US$ 16.1 billion
(B) US$ 65.8 billion and US$ 61.1 billion
(C) US$ 30.3 billion and US$ 17.7 billion
(D) US$ 7.3 billion and US$ 1.7 billion

Oct/Nov 2010

78. Consider the following statements regarding the risks attendant on the deployment of reserves:
I. Market risk includes currency risk, interest rate risk, and movement in gold prices.
II. Credit risk involves potential threats to a counterparty's credit quality.
III. Liquidity risk is managed by maintaining fixed deposits solely with commercial banks overseas as they are the only highly liquid instruments.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2007

79. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): The Net IIP of India as at end-

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equivalent to USD 3.90 billion.
III. The investment is to be made in SDR denominated Notes issued by the IMF.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I, II, and III
(D) I and III only

May/June 2011

93. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): During the half year under review (September 2021-March 2022), the Reserve Bank engaged in Purchase and Repurchase Transactions under the IMF's Financial Transaction Plan (FTP).
Reason (R): These transactions aggregated to USD 172.15 million for repurchases and USD 22.56 million for purchases.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

94. The present level of foreign exchange reserves acts as a source of comfort primarily because it provides a measure of insulation against which of the following?
(A) Domestic inflation primarily driven by large-scale wage hikes in the manufacturing sector.
(B) Systematic long-term declines in agricultural output due to changing global climate patterns.
(C) Unforeseen external shocks or shocks resulting from domestic supply shortages.
(D) The planned obsolescence of physical fiat currency during the transition to a digital economy.

May/June 2013

95. The Central Bank of Sri Lanka utilizes the SAARC Swap Arrangement to manage its short-term foreign exchange liquidity requirements. They availed a swap of USD 400 million on January 13, 2022. On what exact date did this specific swap fall due for maturity?
(A) March 15, 2022
(B) April 18, 2022
(C) June 15, 2022
(D) December 29, 2022

Oct/Nov 2019

96. The size of the IMF's New Arrangements to Borrow (NAB) underwent a significant structural change effective January 01, 2021. If an analyst is reviewing India's commitment under NAB, how should they account for this change?
(A) The commitment size was reduced by half to ease liquidity pressures in the emerging market economies.
(B) The commitment size was doubled, reaching SDR 8,881.82 million as of March 31, 2022.
(C) The NAB was entirely replaced by the Note Purchase Agreement (NPA) to streamline funding for all members.
(D) The total commitment was frozen at its 2010 SDR allocation level indefinitely to ensure global fiscal stability.

May/June 2021

97. Which of the following statements regarding the macro-economic impact of foreign exchange reserves is INCORRECT?
(A) The Reserve Bank prudently tried to destabilize the Rupee by purchasing US dollar reserves from February 2022 onwards.
(B) Confidence instilled by reserves has a bearing on the extent and cost of external borrowings.
(C) The US dollar gained strength due to the ongoing war between Ukraine and Russia.
(D) The valuations of Forex Reserves of India depleted mainly due to a strong US Dollar against other global currencies.

Oct/Nov 2009

98. In the context of macroeconomic stability, which of the following is explicitly noted as a reason for maintaining a cushion of reserves as the economy becomes more open?
(A) To strictly fund the domestic supply shortages of consumer goods.
(B) To manage the volatility of some of the

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government to ensure alignment with broader economic goals.

62. (A) It excludes valuation effects arising from currency exchange rate movements.
Reporting reserve variations on a "balance of payments basis" is a specific statistical method that focuses on actual transactions. This approach intentionally removes any changes in reserve value that result solely from exchange rate fluctuations or other revaluation effects. By excluding these valuation impacts, the figure provides a clearer picture of the net foreign exchange flows into or out of the country.

63. (A) P-3, Q-2, R-1, S-4
The composition of foreign exchange reserves in early October 2022 was distributed across several key categories. Foreign currency assets made up the largest portion, valued at over 471 billion dollars, while gold reserves stood at nearly 39 billion dollars. Together with SDRs and the reserve tranche position, these components resulted in a total reserve level of approximately 532 billion US dollars.

64. (C) Both I and II
During the 2021-2022 financial year, international financial liabilities were shaped by contrasting movements. Portfolio investment experienced a significant decline of over sixteen billion dollars. Despite this outflow, the total value of international liabilities grew because of a strong increase in foreign direct investment and other investment categories, which more than offset the losses in the portfolio investment sector of the economy.

65. (A) I, II, and III
The operational risk framework relies on comprehensive reporting mechanisms that provide frequent updates to senior management. Internal control guidelines are strictly applied to all deal processing and settlement systems, including payment instructions sent via messaging platforms. Unlike some assumptions, the concurrent audit system is an integral part of this framework, actively monitoring compliance with all internal controls to prevent fraud.

66. (A) I, II, and IV
Gold reserves are managed through a combination of domestic and overseas custody. A large portion, exceeding 450 metric tonnes, is held in safe custody with the Bank of England and the Bank for International Settlements. The total holding, which surpassed 760 metric tonnes by March 2022, also includes a specific amount of gold deposits, which form part of the overall reserve assets.

67. (C) By aggressively selling US dollar reserves to stabilize the Rupee.
In response to the strengthening US dollar and geopolitical instability in early 2022, the central bank took active steps to protect the domestic currency. By selling US dollar reserves in the foreign exchange market, the bank aimed to counter the depreciation of the rupee. This intervention is a standard use of reserves to manage currency volatility and maintain macroeconomic stability during external crises.

68. (B) 5207
The reserve tranche position is a specific component of a country's total foreign exchange reserves. For the end of December 2021, the reported value for this position was 5,207 million US dollars. This figure, along with the foreign currency assets, gold, and SDR holdings, contributes to the total reserve valuation used by analysts to assess the country's external liquidity and comfort levels.

69. (A) I, II, IV, and V
As of the end of March 2022, India's external liabilities reached over 1.2 trillion dollars. The largest single component was direct investment, followed closely by other investments and portfolio investment. Within the portfolio investment category, debt securities accounted for 106 billion dollars. These provisional figures provide a detailed breakdown of the various financial claims that non-residents held against the domestic economy.

70. (C) Assertion (A) is true, but Reason (R) is false.
Fluctuations in gold prices are a primary source of market risk for central banks, as gold represents a significant portion of their reserve portfolios. Contrary to the idea that gold is only held in domestic vaults, it is often kept in international

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ANSWERS

1. (B) II and III only
The risk management functions for reserve management focus on fostering accountability and risk awareness across operations. Continuous monitoring of credit exposure against sanctioned limits for approved counterparties is a standard procedure. While these practices are internal, the overarching strategy for currency composition and investment policy is determined by the central bank in consultation with the national government.

2. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The central bank utilizes the SWIFT messaging platform for essential trade settlements and communications with international counterparties and business partners. To ensure the security of these financial transactions, the bank strictly implements necessary system upgrades and adheres to mandatory international security control measures. This alignment with best practices ensures robust and reliable financial messaging across global markets.

3. (C) Addressing the transactions motive that market-determined exchange rates cannot adequately manage.
Maintaining foreign exchange reserves serves several strategic purposes, including providing a buffer against external shocks and managing the volatility of capital flows. These reserves also help mitigate socio-economic adjustment pains during structural shifts. However, in an economy with market-determined exchange rates, the transactions motive is typically handled by the market itself rather than through the holding of reserves.

4. (B) I and III only
Movements in Foreign Currency Assets are primarily driven by the central bank's purchase and sale of foreign exchange and the periodic revaluation of these assets. Contrary to some assumptions, external aid receipts of the Central Government also influence these movements. These factors together account for the variations in the total value of foreign currency holdings over specific periods.

5. (B) Transfer it to the Investment Revaluation Account (IRA) as a cushion against future price changes.
According to standard accounting practices, dated foreign securities are valued at market prices on the last business day of each week and month. Any appreciation or depreciation resulting from these market fluctuations is recorded by transferring the amount to the Investment Revaluation Account. This process creates a financial cushion to offset potential future price changes in the security portfolio.

6. (B) Changes resulting from the new format (BPM6) differing from the old format of BoP.
Differences in the treatment of transfers under the current account often arise from the transition between reporting formats. The adoption of the BPM6 format introduces specific changes compared to the older balance of payments framework. These statistical adjustments are necessary to align national reporting with updated international standards for tracking and classifying various international financial transactions and transfers.

7. (B) Safety and liquidity, with return optimization kept in view within this framework.
The management of foreign exchange reserves is guided by a clear hierarchy of goals. The primary objectives are ensuring the safety of the assets and maintaining high levels of liquidity for immediate use. While seeking to optimize returns is an important consideration, it is only pursued within the strict boundaries set by the foundational requirements of safety and liquidity.

8. (B) Fixed deposits with commercial banks overseas
Reserve assets are selected based on their ability to be converted into cash quickly during external shocks. Marketable instruments like US Treasury securities and bonds from supranational entities

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audit system that provides continuous monitoring of compliance with established internal control guidelines.

26. (D) The Reserve Bank of India Act, 1934
The primary legal authority for managing and deploying foreign exchange reserves is found within the Reserve Bank of India Act of 1934. This legislation specifies the types of international assets and gold in which reserves can be invested. It provides the essential statutory framework that governs how the central bank allocates and protects the nation's international financial resources.

27. (C) Assertion (A) is true, but Reason (R) is false.
Foreign exchange reserves are traditionally expressed and denominated in US dollar terms for reporting purposes. However, the assets themselves are maintained in a diversified multi-currency portfolio rather than exclusively in US dollars. This diversification is a strategic choice to manage currency risk, even though the US dollar and Euro serve as primary currencies for market intervention activities.

28. (A) Buffer against exchange rate and gold price fluctuations — Currency and Gold Revaluation Account (CGRA)
The Currency and Gold Revaluation Account serves as a specific buffer to manage the impact of exchange rate and gold price volatility on the reserve portfolio. This differs from the Investment Revaluation Account, which is dedicated to cushioning the effects of price changes in dated foreign securities. Correct classification of these gains and losses is essential for accurate reserve accounting.

29. (C) March and September
The central bank releases detailed half-yearly reports to provide transparency regarding its reserve management activities. These reports are consistently prepared using data as of the end of March and the end of September each year. This regular reporting cycle allows stakeholders to track the movement, deployment, and adequacy of the nation's foreign exchange reserves over time.

30. (D) In terms of the benchmark duration and the permitted deviation from the benchmark.
Interest rate risk management involves identifying how sensitive the reserve portfolio is to changes in global rates. This sensitivity is measured and controlled using a specified benchmark duration. By setting a permitted range of deviation from this benchmark, the central bank can manage the potential impact of interest rate movements on the market value of its foreign security holdings.

31. (C) 71.9%
The international investment position data provides a ratio comparing a country's total external financial assets to its total external liabilities. As of the end of March 2022, this provisional assets-to-liability ratio stood at a specific percentage. This metric reflects the overall health and coverage of the nation's external financial obligations by its stock of international financial assets.

32. (A) I and IV only
At the end of March 2022, the total gold holdings reached 760.42 metric tonnes. In terms of value, the share of gold within the total foreign exchange reserves increased to approximately 7.01 percent. These figures reflect both the physical accumulation of gold and the impact of price changes on the relative importance of gold as a reserve asset.

33. (B) Negative USD 359.8 billion
The Net International Investment Position is calculated as the difference between a country's total external financial assets and its total external liabilities. For the period ending in March 2022, the liabilities significantly exceeded the assets, resulting in a negative net position. This specific billion-dollar figure represents the net claims of non-residents on the domestic economy at that time.

34. (D) IIFC — International Investment Finance Company
Various acronyms are used in international finance to describe specific agreements and entities. For instance, NAB refers to the New Arrangements to Borrow, and NPA stands for the IMF's Note Purchase Agreement. However, IIFC represents the India Infrastructure Finance Company. Understanding these correct

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17. (A) I, II, III, IV
Between September 2021 and March 2022, the total foreign exchange reserves followed a specific downward trend. The highest absolute value was recorded in October 2021, followed by the levels in September and December of that same year. By the end of March 2022, the reserves reached their lowest point within this specific chronological sequence of reported data.

18. (C) Assertion (A) is true, but Reason (R) is false.
Continuous monitoring of counterparties is essential to identify potential threats to their credit quality, ensuring the safety of reserve investments. Although the portfolio consists of obligations from highly rated sovereigns and supranational entities, this does not eliminate the necessity for strict credit exposure limits. Rigorous risk management remains mandatory to protect against even unlikely defaults in international markets.

19. (A) P-3, Q-1, R-2, S-4
The transparency framework for reserves involves several reporting layers. Monthly data is published using the SDDS template, while half-yearly reports summarize the position at the end of March and September. Weekly statistical supplements provide data for regular press releases. This comprehensive approach ensures that disclosures remain consistent with international best practices for reporting foreign exchange reserve data.

20. (A) Fixed deposits with the BIS and overseas commercial banks are the most liquid assets for immediate conversion.
Liquidity risk refers to the difficulty of selling an instrument or closing a position without incurring significant costs. While treasury securities in major markets can be liquidated in large volumes with minimal price distortion, fixed deposits are generally less liquid for immediate use due to maturity constraints. The choice of specific financial instruments directly shapes the overall liquidity profile of reserves.

21. (C) Appreciation of the US dollar against major currencies.
The substantial valuation loss recorded during the April-June 2022 period was primarily driven by international currency movements. Specifically, the appreciation of the US dollar against other major global currencies reduced the dollar-expressed value of assets held in those other currencies. This market-driven adjustment highlights how exchange rate volatility impacts the nominal value of a multi-currency reserve portfolio.

22. (B) No, as the legal framework limits investments to a residual maturity not exceeding 10 years.
The legal statutes governing the deployment of foreign exchange reserves impose strict maturity limits on debt instruments. Even if a sovereign-guaranteed paper carries high ratings and minimal credit risk, it cannot be selected if its residual maturity exceeds ten years. This regulatory boundary ensures that the portfolio remains aligned with the long-term safety and liquidity requirements of the bank.

23. (A) I, II, and III
Accounting for reserves involves different accounts to track various types of value changes. Gains or losses from exchange rate movements are recorded in the Currency and Gold Revaluation Account. Meanwhile, fluctuations in the market price of dated foreign securities are transferred to the Investment Revaluation Account. These securities are valued regularly at current market prices to ensure accurate reporting.

24. (D) USD 607,309 Million
At the end of the financial year in March 2022, the total foreign exchange reserves reached a specific provisional level. This figure followed a period of decline from higher levels recorded earlier in late 2021. This end-of-year position reflects the cumulative impact of various balance of payments transactions and valuation adjustments that occurred throughout the preceding six-month period of reporting.

25. (B) Strict separation of front and back office functions, monitored by a concurrent audit system.
Operational risk management relies on the fundamental principle of segregating duties to ensure integrity in deal execution. The front office, responsible for deal capture, must be entirely separate from the back office, which handles processing and settlements. This structure is further reinforced by a concurrent

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provide a guaranteed or higher valuation when transferring price appreciation to the revaluation accounts for accounting purposes.

44. (D) It increased marginally to 49.2 per cent from 48.5 per cent a quarter ago.
Analyzing the structure of external liabilities reveals the relative weight of debt-based obligations. Between the final two quarters of the 2021-2022 financial year, the share of debt liabilities in total external liabilities showed a marginal increase. This slight rise, from 48.5 to 49.2 percent, reflects subtle shifts in the composition of foreign claims on the domestic economy during that period.

45. (C) December 15, 2021
Under the SAARC Swap Arrangement, short-term liquidity facilities can be extended through rollovers. For the specific facility provided to Bhutan in March 2021, two consecutive three-month rollovers were utilized. This extension moved the final maturity date from the original three-month term to mid-December 2021, illustrating the flexible nature of regional financial support provided by the central bank.

46. (B) A summary of the stock of a country's external financial assets and liabilities at a specific point in time.
The International Investment Position is a foundational statistical statement used in macroeconomic analysis. It provides a comprehensive summary of the total stock of a country's external financial assets and liabilities at a specific reference date. By comparing these stocks, analysts can determine the net wealth or debt position of a nation relative to the rest of the world.

47. (C) Repurchase Transactions — USD 172.15 million
Transactions with the International Monetary Fund involve specific mechanisms like the Financial Transaction Plan. During the six-month period ending in March 2022, the central bank recorded specific dollar amounts for both purchase and repurchase activities. The repurchase transactions were significantly larger, totaling 172.15 million US dollars, compared to the smaller volume of purchase transactions conducted during the same timeframe.

48. (B) I, III, IV, and V
Reserve adequacy is assessed through multiple indicators, including import cover and the ratio of volatile capital flows to reserves. Volatile capital flows are defined as the sum of cumulative portfolio inflows and outstanding short-term debt. At the end of 2021, indicators showed a decrease in import cover and an increase in the ratio of these volatile flows relative to total reserves.

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49. (B) 11.08 metric tonnes
Total gold reserves are composed of physical gold held in various locations and specific gold deposits. While the vast majority of the 760.42 metric tonnes is held as physical bullion domestically or overseas, a small fraction is specifically held as deposits. As of the end of March 2022, this deposit component amounted to exactly 11.08 metric tonnes of the total holding.

50. (A) P-3, Q-2, R-1, S-4
During the 2021-2022 financial year, overseas assets held by domestic residents saw a general increase. This growth was distributed across reserve assets, direct investments, and trade credits. The overall rise in total international assets was driven primarily by the increase in reserves, which contributed over 30 billion US dollars to the total sixty-one billion dollar expansion of overseas financial claims.

51. (C) USD 5.00 billion
To support infrastructure development, the central bank has a specific mandate to invest in international bonds. The investment is targeted at debt instruments issued by the UK-based subsidiary of the India Infrastructure Finance Company. Under the existing framework, the total amount that can be deployed into these specific bonds is capped at a maximum limit of five billion US dollars.

52. (D) Debt Securities
In the classification of international financial assets, "Other Investment" is a broad category that includes several types of claims. It encompasses trade credits, loans, and currency and deposits held by residents. However, debt securities are excluded from this category because they are separately classified under the portfolio investment heading within the overall

expansions is necessary for accurately identifying the participants and mechanisms involved in global financial arrangements.

35. (A) It significantly changed liabilities in US$ terms as the rupee depreciated by 2.02 per cent.
Variations in the exchange rate of the domestic currency impact the valuation of external liabilities when they are expressed in foreign currency. During the first quarter of 2022, a 2.02 percent depreciation of the rupee led to a significant change in the total value of liabilities when measured in US dollars. This demonstrates how currency volatility affects international financial reporting.

36. (C) Both I and II
The SAARC Swap Arrangement provides short-term liquidity support to regional neighbors. For instance, Maldives utilized a swap facility that was eventually rolled over before maturing in late 2021. Similarly, Sri Lanka availed a significant swap in early 2022 with a specific three-month maturity. These transactions illustrate the central bank's role in supporting regional financial stability through swap agreements.

37. (B) Only II
The reported figure of 68.20 billion US dollars at the end of March 2021 specifically represented a net forward receivable position for the central bank. This indicates that the bank was due to receive more foreign currency than it was scheduled to pay out under forward contracts. Correctly identifying this as a receivable is essential for understanding the bank's domestic market position.

38. (C) Both I and II
During the 2021-2022 financial year, international financial liabilities were influenced by opposing trends. While there was a notable decline in portfolio investment, this was countered by a substantial rise in foreign direct investment and other investment categories. Consequently, the total value of foreign-owned assets within the country increased despite the withdrawal of capital from the portfolio investment sector.

39. (A) P-4, Q-3, R-2, S-1
The deployment of foreign currency assets as of March 2022 follows a specific pattern across different categories. The largest portion is held in securities, followed by deposits with other central banks and the Bank for International Settlements. Smaller amounts are kept with overseas commercial banks. These individual billion-dollar values combine to form the total reported foreign currency asset figure.

40. (D) The duration a country can sustain imports using only its current foreign exchange reserves.
Import cover is a critical adequacy indicator that expresses the stock of foreign exchange reserves in terms of months of imports. It calculates how long a nation can continue to pay for its imports if all other sources of foreign exchange were to cease. A shift in this metric, such as a decline, indicates changes in the relative strength of reserve holdings.

41. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Current levels of foreign exchange reserves provide essential insulation against unforeseen external shocks and domestic supply shortages. By satisfying the precautionary motive and ensuring liquidity, these reserves bolster the confidence of international investors in the domestic economy. This perceived stability can influence the availability and cost of external financing, further strengthening the country's overall macroeconomic position.

42. (A) P-2, Q-1, R-4, S-3
India's external assets at the end of March 2022 were distributed among several key components. Reserve assets represented the largest share, followed by direct investment and other investments. Portfolio investment accounted for the smallest portion of these international financial assets. Each category's billion-dollar value contributes to the total stock of wealth held by domestic residents in foreign entities and instruments.

43. (C) Assertion (A) is true, but Reason (R) is false.
A significant amount of the country's gold reserves is held in safe custody overseas with institutions like the Bank of England and the Bank for International Settlements. While this storage is a standard practice for international central banks, the location itself does not

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offer high liquidity. In contrast, fixed deposits with overseas commercial banks are generally less liquid for immediate, large-scale conversion because they are often subject to specific maturity terms and conditions.

9. (B) SDR holdings of Reserve Bank — Excluded from SDR reporting and strictly merged into the Foreign Currency Assets (FCA).
Foreign exchange reserves consist of distinct components, including foreign currency assets, gold, and special drawing rights. These categories are reported separately to maintain transparency. While foreign currency assets are valued in US dollars despite being multi-currency, SDR holdings are not merged into them. Other exclusions from reported assets include specific investments in infrastructure bonds and regional swap arrangements.

10. (C) Portfolio valuation changes resulting from movements in interest rates, exchange rates, and gold prices.
Market risk in a multi-currency reserve portfolio refers to the potential for changes in the valuation of assets. These fluctuations are primarily driven by movements in global interest rates, currency exchange rates, and the market price of gold. Managing this risk involves monitoring how these external variables impact the total value of the holdings over different investment horizons.

11. (B) I, II, and IV
During the period from April to June 2022, foreign exchange reserves showed a decrease when measured on a balance of payments basis, which excludes valuation effects. However, in nominal terms, there was a recorded decrease. This discrepancy was largely due to valuation losses during the quarter, reflecting the significant reduction in reserves seen during the same period.

12. (C) Both I and II
The legal framework for reserve management allows for investments in debt instruments representing sovereign or sovereign-guaranteed liabilities, provided their residual maturity does not exceed ten years. Additionally, the law permits the deployment of reserves through deposits with the Bank for International Settlements and various commercial banks overseas. These provisions define the authorized avenues for international asset allocation.

13. (B) I, III, and V
Operational risk is managed through documented procedures and the regular reconciliation of accounts to ensure independent monitoring. The SWIFT messaging platform is utilized for all financial communications with counterparties. Unlike some assumptions, deal processing and settlement systems must follow strict internal control guidelines, and the auditing process involves both internal and external oversight to ensure compliance.

14. (C) Decisions based on projected exchange rate movements and medium-to-long-term strategies.
Management of currency risk involves determining long-term exposure to various global currencies. These decisions are primarily guided by projections of exchange rate movements and broader medium-to-long-term investment strategies. This forward-looking approach allows for a diversified portfolio that is not strictly limited to matching specific borrowing obligations or focusing solely on a single intervention currency like the dollar.

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15. (A) P-2, Q-3, R-4, S-1
Detailed statistical data for the April-June 2022 period identifies specific billion-dollar values for different balance of payments components. The current account recorded a significant deficit, while the capital account showed a net surplus. Within these accounts, foreign direct investment and external commercial borrowings contributed specific amounts to the overall variation in the country's foreign exchange reserve position.

16. (A) Payment for imports
The level of foreign exchange reserves is a vital macroeconomic indicator reflecting a nation's ability to fulfill international obligations. Specifically, the import cover metric measures how many months a country can sustain its imports using its current reserves. This serves as a primary gauge of economic comfort and insulation against unforeseen external disruptions or domestic supply-side shortages.

international investment position reporting framework.

53. (C) The decline in foreign liabilities was primarily due to a reduction in foreign direct investment.
During the first quarter of 2022, foreign liabilities saw a decrease, but this was not caused by a drop in direct investment. Instead, the decline was driven by reductions in portfolio investment and currency deposits. Meanwhile, international financial assets also fell, mainly due to a decrease in reserve assets, though reserves still represented the majority of the country's total external assets.

54. (C) Securities
The deployment of foreign currency assets is strategically diversified among various high-quality instruments. Marketable securities form the largest and most significant component of this portfolio, representing over 67 percent of the total FCA as of March 2022. This heavy allocation to securities ensures that a majority of the reserves are held in liquid, tradeable assets that satisfy the primary objective of safety.

55. (B) 71.9 per cent
The ratio of international financial assets to liabilities is a key measure of a country's external financial strength. Over the course of the financial year ending in March 2022, this ratio improved, rising from its previous level of 70.8 percent. Reaching 71.9 percent indicates that the stock of external assets grew more relative to the stock of external liabilities during that period.

56. (C) Assertion (A) is true, but Reason (R) is false.
India's Net International Investment Position remains negative, which confirms that total external liabilities exceed total external assets. However, the gap between these assets and liabilities did not decrease during the financial year ending in March 2022. Instead, the negative position actually widened on a year-on-year basis, reflecting an increase in the net claims of non-residents on the domestic economy.

57. (B) I, III, IV, and V
India's commitments to the International Monetary Fund involve several structured arrangements. This includes participation in the New Arrangements to Borrow, which saw its commitment size doubled rather than halved in 2021. Other commitments involve subscriptions to SDR-denominated notes and the Note Purchase Agreement of 2020, through which the central bank agreed to invest specific amounts in international notes issued by the IMF.

58. (C) Assertion (A) is true, but Reason (R) is false.
During the first quarter of 2022, the net claims of non-residents on the country increased by over five billion dollars. While this indicates a rise in net liabilities, it was caused by a specific imbalance in the decline of assets. The overseas financial assets held by residents decreased by a much larger amount than the decrease seen in foreign-owned assets within the country.

59. (C) Multi-currency, multi-asset portfolios held according to best international investment practices.
Foreign currency assets represent a major portion of a nation's reserves and are managed with a focus on diversification. These are multi-currency and multi-asset portfolios that include various high-quality financial instruments. The management approach follows international best practices, ensuring that the assets provide safety and liquidity while being expressed in US dollars for standardized reporting and comparative global analysis.

60. (A) I and II only
For the 2021-2022 financial year, the net claims of non-residents on the country showed a moderate increase. This was driven by the fact that the rise in foreign-owned assets within the country exceeded the growth of overseas assets held by residents. Furthermore, the increase in residents' international assets was primarily supported by direct investment and reserves rather than by portfolio investment growth.

61. (C) The Government of India
The management of foreign exchange reserves involves a collaborative governance process. While the central bank is responsible for the day-to-day operations and management of the portfolio, the broad strategy is not decided independently. Decisions regarding essential policies, such as currency composition and investment guidelines, are finalized only after thorough consultation with the national

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capital flows.

(C) To permanently replace market-determined exchange rates.

(D) To ensure all outward foreign direct investments are heavily subsidized.

May/June 2008

99. Consider the following statements regarding the SAARC Swap Arrangements:

I. Bhutan availed a swap of USD 200 million which was rolled over twice for three months each.

II. Maldives availed a swap of USD 250 million on December 29, 2020.

III. Sri Lanka availed a swap of USD 400 million on January 13, 2022.

IV. Bhutan availed another facility of USD 200 million on March 17, 2022.

V. The swap for Maldives matured on December 29, 2021, after the first roll over.

Which of the above statement(s) is/are correct?

(A) I, II, and III only

(B) I, III, IV, and V only

(C) II, III, IV, and V only

(D) I, II, III, IV, and V

Oct/Nov 2017

100. Regarding the total foreign exchange reserves position as of 07 Oct 2022, all of the following components and their approximate values are correct EXCEPT:

(A) Total Forex Reserves stand at around US$ 532.838 Billion.

(B) Foreign Currency Assets (FCA) component is at around US$ 471.496 Billion.

(C) Gold Reserves are at around US$ 38.995 Billion.

(D) SDRs with the IMF are at around US$ 50.582 Billion.

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institutions to facilitate ease of transaction. Regardless of the storage location, gold remains exposed to global financial market price changes and volatility.

71. (A) Fixed deposits placed with the Bank for International Settlements (BIS)
The reporting of Foreign Currency Assets includes specific types of international deployments while excluding others for statistical clarity. Fixed deposits with the Bank for International Settlements are a standard component included in FCA figures. However, investments in infrastructure bonds, SDR holdings of the central bank, and amounts lent under regional swap arrangements are explicitly excluded from these specific foreign currency asset totals.

72. (B) Yes, provided it is approved by the Central Board of the Reserve Bank in accordance with the provisions of the Act.
The legal framework for reserve management provides a list of authorized investments but also allows for flexibility. If a new type of debt instrument from a highly rated supranational entity is identified, the central bank can legally invest in it, provided the investment receives specific approval from its Central Board. This ensure that all deployments remain within the broader oversight of the bank.

73. (D) "Other items in capital account" strictly excludes SDR allocation and advances received pending issue of shares under FDI.
Footnotes in statistical reports clarify how various components are treated in different balance of payments formats. While ADRs and GDRs are classified under portfolio investment, and rounding off accounts for minor total differences, the definition of "other items in capital account" is broad. It actually includes SDR allocations and specific advances related to foreign direct investment, rather than excluding them as sometimes suggested.

74. (C) Total separation of the front office and the back-office functions.
To ensure the integrity of reserve management operations, the central bank enforces a strict separation of duties. This fundamental principle requires that the front office, which negotiates and captures deals, is entirely distinct from the back office, which is responsible for the processing and settlement of those trades. This structural separation is the primary defense against operational errors and potential fraudulent activity.

75. (D) Increased from about 5.88 per cent to about 7.01 per cent.
The composition of the foreign exchange reserves shifted notably between the end of September 2021 and the end of March 2022. Specifically, the value of gold as a percentage of the total reserves increased during this six-month period. Rising from approximately 5.88 percent to 7.01 percent, this change reflects both the accumulation of gold and the impact of fluctuating global gold prices.

76. (B) US$ 532.838 Billion
By early October 2022, the total stock of foreign exchange reserves stood at an approximate level of 532.838 billion dollars. This figure is the sum of various components, including foreign currency assets, gold reserves, special drawing rights, and the reserve tranche position. This level provides a snapshot of the country's external liquidity after several months of market interventions and valuation changes.

77. (D) US$ 7.3 billion and US$ 1.7 billion
The increase in net claims by non-residents during the first quarter of 2022 was the result of unequal declines in financial positions. Overseas assets held by domestic residents fell by 7.3 billion dollars, a significantly larger amount than the 1.7 billion dollar decline in foreign-owned assets within the country. This disparity drove the overall rise in the net liability position during that quarter.

78. (A) I and II only
Deploying reserves involves managing multiple risks, including market risk and credit risk. Market risk encompasses volatility in interest rates, exchange rates, and gold prices, while credit risk focuses on the potential for counterparty defaults. However, liquidity risk is not managed solely through commercial bank deposits; it involves selecting various high-quality, tradeable instruments that can be converted to cash at short notice.

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Oct/Nov 2025

6. How does the Reserve Bank derive its regulatory power over the Government securities market?
(A) From Section 24 of the Banking Regulation Act, 1949
(B) From Section 16 of the Securities Contract (Regulation) Act, 1956
(C) From Section 40 of the Reserve Bank of India Act, 1934
(D) From the Foreign Exchange Management Act (FEMA), 1999

May/June 2012

7. What is a primary objective of developing deep and well-regulated financial markets as recognised by central bankers?
(A) To facilitate the accumulation of long-term external debt and expand uncollateralised exposures
(B) To enable efficient market-based monetary policy by improving interest rate signals
(C) To strictly regulate the allocative efficiency of financial intermediation through administered rates
(D) To ensure that government deficits are automatically monetized through ad hoc Treasury Bills

Oct/Nov 2014

8. Regarding the use of Rupee derivatives for hedging purposes, consider the following scenario: A domestic corporate client intends to hedge its interest rate risks using Rupee derivatives. The client previously utilized the Mumbai Inter-bank Forward Offered Rate (MIFOR). Under the updated regulations effective May 20, 2005, for what specific purpose can market participants still use MIFOR swaps?
(A) Engaging in speculative short-term trading within the overnight call money market
(B) Market making for transactions involving underlying permissible foreign exchange exposures
(C) Converting long-term capital-indexed bonds into zero-coupon bonds
(D) Acquiring direct equity stakes in various overseas subsidiary banking entities

May/June 2019

9. Which of the following statements correctly identifies the historical trends of call money rates in India?
(A) The average call money rate remained completely static at 4.6 per cent throughout the 1990s.
(B) The average call money rate fluctuated within a range of 4.6 to 9.2 per cent during 2000-05
(C) The average call money rate peaked at 34 per cent in 1993-94 due to statutory pre-emptions.
(D) The average call money rate generally stayed above 25 per cent from 2000 to 2010.

Oct/Nov 2006

10. Which of the following statements regarding the call money market during the 1990s and its subsequent reforms is incorrect?
(A) During the 1990s, participation in the call money market was widened to cover primary dealers and corporates.
(B) While banks and primary dealers were permitted to lend and borrow, other entities could participate only as lenders.
(C) The call money market transitioned into a pure inter-bank market, excluding primary dealers, by August 2005.
(D) The process of reforming the call money market into a pure inter-bank market was facilitated by the development of the repo market.

NODIA

May/June 2021

11. Consider the evolution of the Statutory Liquidity Ratio (SLR) in India. Effective September 16, 1964, the Banking Regulation Act was amended to require all banks to maintain a minimum amount of liquid assets equal to not less than:
(A) 20 per cent of their demand and time liabilities
(B) 25 per cent of their total demand and time liabilities
(C) 34 per cent of their net demand and time liabilities
(D) 38.5 per cent of their total demand and time liabilities

Oct/Nov 2010

12. Match the following entities/committees in List I with their corresponding year of establishment or report in List II and select the correct answer using the options provided.
List I: (Entity/Committee)
P. Committee on Financial System

88. (B) CGRA buffers exchange rate and gold fluctuations; IRA cushions changes in security prices.
Two distinct revaluation accounts are used to manage different types of market risk in the reserve portfolio. The Currency and Gold Revaluation Account provides a buffer against fluctuations in exchange rates and gold prices. In contrast, the Investment Revaluation Account is specifically designed to cushion the impact of changes in the market prices of dated foreign securities held by the central bank.

89. (B) 607.3 billion
Reserve assets constitute the most significant portion of the country's total international financial assets. At the end of March 2022, out of a total asset stock of over 920 billion dollars, reserve assets accounted for 607.3 billion dollars. This substantial share highlights the importance of the central bank's holdings in the overall external wealth and financial strength of the national economy.

90. (A) III, I, II, IV
The value of gold reserves underwent several changes between October 2021 and March 2022. The lowest value in this sequence was recorded in October 2021, followed by a general upward trend through January and December. The highest value for gold reserves during this period was reached at the end of the financial year in March 2022, reflecting both volume and price changes.

91. (B) Reserves mitigate adjustment pains when structural shifts release strong excess demand.
In an open economy, reserves serve a critical role during periods of transition. When broad structural shifts occur, they can release strong excess demand or create temporary supply bottlenecks. A cushion of foreign exchange reserves helps mitigate the resulting socio-economic adjustment pains. This protection is especially important when market-determined exchange rates face friction or when immediate market adjustments are not perfectly smooth.

92. (C) I, II, and III
The Note Purchase Agreement of 2020 is a structured financial arrangement between the central bank and the International Monetary Fund. Under this agreement, the bank has committed to invest up to 3.90 billion US dollars. This investment is made in specific notes issued by the IMF that are denominated in Special Drawing Rights, serving as part of the country's broader international financial commitments.

93. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
During the half-year period ending in March 2022, the central bank engaged in various transactions under the IMF's Financial Transaction Plan. These activities included both purchase and repurchase transactions, which are standard mechanisms for member nations. The reported figures of 172.15 million dollars for repurchases and 22.56 million dollars for purchases accurately reflect the central bank's participation in this international financial framework.

94. (C) Unforeseen external shocks or shocks resulting from domestic supply shortages.
Foreign exchange reserves are maintained primarily as a precautionary measure to ensure national economic stability. They provide an essential source of comfort by insulating the economy against unforeseen external shocks and sudden domestic supply shortages. This buffer allows the country to meet its international obligations and maintain essential imports even when faced with unexpected disruptions in the global or domestic marketplace.

95. (B) April 18, 2022
Under the regional SAARC Swap Arrangement, the Central Bank of Sri Lanka was provided with a 400 million dollar facility in early 2022. This swap was designed to address short-term foreign exchange liquidity requirements. Initiated on January 13, the facility had a specified three-month term, which led to its scheduled maturity date falling on April 18 of the same year.

96. (B) The commitment size was doubled, reaching SDR 8,881.82 million as of March 31, 2022.
A significant structural change occurred in the IMF's New Arrangements to Borrow at the start of 2021. Rather than being reduced, the size of the total arrangement was doubled. For the domestic central bank, this meant its commitment under the NAB increased to over 8,881 million SDRs

NODIA

by the end of March 2022, reflecting a stronger participation in global financial safety nets.

97. (A) The Reserve Bank prudently tried to destabilize the Rupee by purchasing US dollar reserves from February 2022 onwards.
The central bank's primary role in the foreign exchange market is to ensure stability and mitigate excessive volatility. During the early part of 2022, factors such as the strengthening US dollar and geopolitical tensions led to a depletion in the valuation of reserves. The Reserve Bank prudently tried to stabilize the Rupee by selling US dollar reserves from February 2022 onwards. Any claim that the bank purposefully tried to destabilize the domestic currency is incorrect and contradicts its core macroeconomic mandate.

98. (B) To manage the volatility of some of the capital flows.
As the economy becomes increasingly integrated with global markets, it faces greater exposure to international capital movements. Maintaining a cushion of reserves is essential to manage the inherent volatility associated with these flows. This strategic holding ensures that the economy can withstand sudden shifts in investor sentiment or capital flight, thereby maintaining currency stability and providing long-term confidence to the market.

99. (D) I, II, III, IV, and V
The central bank provides various liquidity facilities to neighboring nations through the SAARC Swap Arrangement. This includes swaps and rollovers for Bhutan and Maldives, as well as significant support for Sri Lanka in early 2022. Each of these transactions, with their specific amounts and maturity dates, demonstrates the bank's active role in promoting regional financial cooperation and addressing short-term liquidity needs.

100. (D) SDRs with the IMF are at around US$ 50.582 Billion.
Total foreign exchange reserves are composed of several key parts, each with specific approximate values. While total reserves were around 532 billion dollars and gold reserves near 39 billion dollars in October 2022, the reported value for SDRs was much lower than fifty billion. Accurately identifying the value of each component is vital for understanding the overall strength of the nation's international liquidity.

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CHAPTER 12

Constituents of Indian Financial System Structure

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May/June 2016

1. Which of the following major developments triggered the initial development of the money and Government securities markets in India in 1997?

(A) The introduction of an electronic order matching trading system in the Negotiated Dealing System

(B) The implementation of the fully accessible route (FAR) for foreign portfolio investors

(C) The conversion of Commercial Paper into a stand-alone product and its trading in demat form

(D) Replacing automatic deficit monetization via ad hoc Treasury Bills with Ways and Means Advances

Oct/Nov 2009

2. A well-rated corporate entity issues Commercial Paper (CP). However, it observes that an active secondary market for CP has not emerged in India. According to the structural dynamics of the Indian money market, what is the primary reason for this lack of an active secondary market?

(A) The explicit prohibition by the Reserve Bank of India on trading CPs in dematerialized form

(B) The persistent statutory liquidity ratio (SLR) requirements that mandate CPs to be held exclusively by the Central Government

(C) Investor preference for holding to maturity due to returns and inter-state stamp duty variations

(D) The continuous linkage of CP issuance to the cash credit limit of the issuing corporate

May/June 2023

3. Consider the following statements regarding money market instruments:

I. Certificates of Deposit are large size deposits and the transaction costs on them are lower than retail deposits.

II. Regional Rural Banks are not permitted to issue Inter-bank participation certificates (IBPCs) under any circumstances.

Which of the statements is/are correct?

(A) Only Statement I is correct

(B) Only Statement II is correct

(C) Both Statements I and II are correct

(D) Neither Statement I nor II is correct

Oct/Nov 2018

4. Consider the following statements regarding recent developments in the money market (2020-21):

I. The weighted average call rate (WACR) in the unsecured call money market serves as the operating target of monetary policy.

II. The average spread of the WACR over the policy repo rate increased to (-) 63 bps in 2020-21 from 9 bps in 2019-20.

III. Volatility in the call money market, measured by the coefficient of variation of the WACR, decreased from 7.55 in 2019-20 to 3.50 in 2020-21.

Which of the above statement(s) is/are correct?

(A) I and II

(B) II and III

(C) I and III

(D) I, II, and III

May/June 2007

5. A bank treasury manager recalls that prior to December 1973, call market rates touched an unsustainable high of 25 to 30 per cent. To bring order to the market and prevent distortion of the banking system, an intervention established a ceiling on the call money rate. What was the initial ceiling fixed in December 1973?

(A) 8.5 per cent

(B) 10 per cent

(C) 15 per cent

(D) 17.7 per cent

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Net International Investment Position was recorded as a negative 359.8 billion dollars at the end of March 2022. This negative status is a direct consequence of the country's total external financial liabilities being significantly higher than its total external financial assets. Essentially, this figure represents the net value of the financial claims that the rest of the world holds against the country.

80. (D) SDR - 5143
Statistical data for March 2022 details the billion-dollar values for all reserve components. While the figures for foreign currency assets, gold, and total reserves are reported correctly in many data sets, the value assigned to special drawing rights must be accurate. Identifying the incorrect SDR figure is essential for maintaining the integrity of the overall foreign exchange reserve accounting and reporting process.

81. (A) P-2, Q-3, R-4, S-1
Foreign currency assets are deployed across different categories to balance safety and liquidity. As of March 2022, securities held the largest share at over 67 percent, while deposits with other central banks and the BIS accounted for nearly 26 percent. A smaller portion was kept with commercial banks, while specific investments in infrastructure bonds were excluded from these standard deployment percentage tables.

82. (A) Maximizing speculative trading profits
Governance structures for reserve management are designed to ensure accountability, efficient resource allocation, and adherence to international best practices. These functions aim to protect the value of national assets rather than seeking speculative gains. Consequently, maximizing trading profits through speculation is not an objective of the framework, which instead prioritizes the foundational goals of capital preservation, safety, and maintaining high liquidity.

83. (D) The benchmark duration and the permitted deviation from that specific benchmark.
To manage interest rate risk, the central bank actively monitors how its foreign security portfolio responds to rate changes. This is achieved by tracking the portfolio's duration relative to a pre-defined benchmark. By maintaining the duration within a strictly permitted range of deviation, the bank can limit the potential for significant valuation losses caused by the volatility of global interest rate movements.

84. (A) P-3, Q-1, R-2, S-4
Various indicators are used to assess the adequacy of reserves at the end of 2021 and early 2022. These include an import cover of 13.1 months and a short-term debt-to-reserves ratio of 18.1 percent. Additionally, the ratio of volatile capital flows to reserves reached 65 percent, while the overall ratio of international financial assets to liabilities was recorded at 71.9 percent.

85. (A) P-2, Q-1, R-3, S-4
Variations in reserves during the second quarter of 2022 were driven by several distinct factors. Significant outflows of foreign institutional investment and a massive valuation loss of over 18 billion dollars contributed to the decline. These were partially offset by positive inflows from banking capital and short-term credit. Together, these figures explain the complex movement of the country's total foreign exchange reserves.

86. (B) 17(6A), 17(12), 17(12A), 17(13) and 33 (6)
The Reserve Bank of India Act, 1934, provides the comprehensive legal foundation for all reserve management activities. Specifically, sections 17 and 33 contain the sub-sections that authorize the bank to deal in foreign exchange, maintain deposits with international institutions, and invest in various foreign securities and gold. These statutes define the legal boundaries within which the nation's international assets are managed.

87. (B) Reduction in portfolio investment as well as currency and deposits.
The decline in foreign liabilities during the first quarter of 2022 was driven by changes in specific investment categories. Rather than a drop in direct investment or loan repayments, the reduction was primarily due to lower levels of portfolio investment and currency deposits held by non-residents. These shifts reflect a period where foreign investors reduced their exposure to certain sectors of the domestic financial market.

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(Narasimham)
Q. Working Group on the Money Market (Vaghul)
R. Discount and Finance House of India (DFHI)
S. Committee to Review the Working of the Monetary System (Chakravarty)

List II: (Year)
1. 1985
2. 1987
3. 1988
4. 1992

(A) P-4, Q-2, R-3, S-1
(B) P-3, Q-1, R-4, S-2
(C) P-1, Q-4, R-2, S-3
(D) P-2, Q-3, R-1, S-4

May/June 2005

13. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): Banks in India have at times arbitraged between the call market and the Commercial Paper (CP) market.

Reason (R): Inter-bank call rates have generally tended to be lower than CP rates, allowing banks to borrow from the former and lend in the latter.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2022

14. Repurchase Agreements (Repo) in the money market are best defined as:

(A) Long-term bonds issued directly by the Central Government with variable reserve requirements
(B) Derivative products used exclusively for hedging commodity price risks in overseas markets
(C) Short-term instruments used by central banks to manage liquidity and smooth market rate volatility
(D) Negotiable instruments issued only by smaller banks with limited branch networks

NODIA

May/June 2018

15. What was the historical impetus for the development of the Government securities market in India, which was later supplemented by the need for sterilization during the 1990s?

(A) The immediate need to finance widespread corporate insolvencies
(B) The necessity to fund foreign direct investment outflows
(C) The requirement to eliminate the physical transfer of bullion reserves
(D) The large Government borrowing requirements

Oct/Nov 2016

16. Arrange the following early developments in the Indian money market in chronological order:

I. Introduction of Certificates of Deposit (CDs) and Commercial Paper (CPs)
II. Establishment of the Discount and Finance House of India (DFHI)
III. Recommendations of the Committee to Review the Working of the Monetary System in India (Chakravarty Committee)
IV. Recommendations of the Working Group on the Money Market (Vaghul Committee)

(A) III, IV, II, I
(B) III, II, IV, I
(C) IV, III, I, II
(D) IV, I, III, II

May/June 2014

17. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): In May 2020, as part of the Aatma Nirbhar Bharat programme, the Reserve Bank notified a special liquidity scheme at the repo rate for NBFCs/HFCs.

Reason (R): The primary objective of this scheme was to avoid any potential systemic risks to the financial sector during the global market turmoil.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

4. 1999

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-2, Q-3, R-1, S-4
(D) P-3, Q-2, R-4, S-1

Oct/Nov 2021

30. Identify the incorrect pair regarding money market instruments and their characteristics:

(A) Certificates of Deposit (CDs) : Negotiable money market instruments issued by banks and financial institutions
(B) Inter-bank participation certificates (IBPCs) : Used by banks for priority sector loans to comply with targets
(C) Interest Rate Swaps (IRS) : Introduced in 1999 to further deepen the money market and enable hedging
(D) Money Market Instruments : Providing long-term structural capital to public sector undertakings

May/June 2024

31. Match the following initiatives in the Government securities market in List I with their corresponding implementation periods in List II and select the correct answer using the options provided.

List I: (Initiative)
P. Establishment of STCI
Q. Introduction of DvP system
R. Shift of yield curve announcement task from RBI to FIMMDA
S. Reintroduction of 182-day Treasury Bills

List II: (Implementation Period)
1. May 1994
2. July 1995
3. October 2000
4. April 2005

(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2008

32. Arrange the following events affecting G-sec yields during Q2 and Q3 of 2020-21 in chronological order:

I. Status quo maintained on the policy rate in the August 2020 meeting of the MPC
II. A series of measures including OMOs announced by the Reserve Bank on August 31, 2020
III. Announcement of an unchanged borrowing calendar for the second half of 2020-21 in October 2020
IV. Extension of held-to-maturity (HTM) benefit by one more year up to March 31, 2022

(A) I, II, III, IV
(B) II, I, IV, III
(C) I, III, II, IV
(D) III, IV, I, II

May/June 2006

33. The Reserve Bank, acting as the Government's debt manager, sought to broaden market participation and eliminate the "winner's curse" associated with multiple price auctions. Which specific auction method was introduced for 91-day Treasury Bills to address this issue?

(A) Discriminatory price auction method
(B) Uniform price auction method
(C) Private placement sealed bid method
(D) Tap issue negotiation method

Oct/Nov 2017

34. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): Until the early 1970s, the forex market in India remained relatively insulated despite the floatation of major currencies globally.

Reason (R): Exchange controls inhibited capital movement and banks were required to undertake only cover operations and always maintain a square or near square position.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

35. Consider the following statements regarding Debt Management Operations during 2021-22:

I. The weighted average yield (WAY) of G-sec issuances increased by 49 basis points

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Oct/Nov 2024

24. On which date were banks exempted from the maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on inter-bank liabilities to foster the development of the term money market?
(A) March 16, 1949
(B) December 31, 1974
(C) April 19, 1997
(D) February 15, 2002

May/June 2017

25. Consider the following statements regarding the reforms in the repo market since 1999:
I. Clearing Corporation of India Ltd. (CCIL) was set up to make repo operations efficient.
II. Introduction of Delivery versus Payment (DvP) permitted the rollover of repos.
III. Repo eligibility was extended to a select category of non-SGL account holders based on TAC advice in February 2003.
IV. Collateralized Borrowing and Lending Obligations (CBLO) was launched by CCIL in January 2003.
V. Participation in the market repo facility was strictly restricted to scheduled commercial banks and completely excluded urban cooperative banks.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) I, III, IV, and V
(C) II, III, IV, and V
(D) I, II, IV, and V

Oct/Nov 2005

26. In which month and year did the Reserve Bank of India divest its shareholding in the Discount and Finance House of India (DFHI)?
(A) August 2005
(B) May 2005
(C) October 2000
(D) March 2003

May/June 2020

27. Match the money market volume and rate statistics for the period 2020-21 in List I with their correct values in List II and select the correct answer using the options provided.
List I: (Metric)
P. Increase in average daily volume in the money market
Q. Call money segment market share
R. Triparty repo market share of total volume
S. Spread of CD rates over T-bill rates narrowed in Q4: 2020-21 to
List II: (Value)
1. 39 per cent
2. 2 per cent
3. 69 per cent
4. 6 bps
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-2, S-3

NODIA

Oct/Nov 2015

28. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.
Assertion (A): In the Indian context, the role of the Treasury Bill as a money market instrument was historically largely attenuated.
Reason (R): The discount rate on 91-day Treasury Bills remained unchanged at 4.6 per cent since 1974 and was totally out of alignment with other short-term rates.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

29. Match the following events in the Indian money market in List I with their corresponding dates in List II and select the correct answer using the options provided.
List I: (Event)
P. Introduction of Rupee derivatives (IRS/FRA)
Q. Conversion of CP into a stand-alone product
R. Operationalization of Negotiated Dealing System (NDS)
S. Extension of market repo facility to non-scheduled urban cooperative banks
List II: (Date)
1. October 2000
2. February 15, 2002
3. May 11, 2005

(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

18. The money market is expected to perform several broad functions. Which of the following accurately describes one of these functions?
(A) To act as a focal point for central bank interventions to influence liquidity and interest rates
(B) To provide a platform for uniformly catering to long-term investment requirements extending beyond five years
(C) To automatically monetize the persistent budget deficits of the Central Government
(D) To ensure that short-term interest rates are completely isolated from the overall monetary policy objectives

May/June 2025

19. Examine the following statements regarding the Certificates of Deposit (CD) market and select the correct option.
I. The secondary market for CDs has highly developed in India due to widespread retail participation.
II. The flexibility of CDs has improved over the years through measures effecting reductions in the minimum lock-in period and amount of issue.
(A) Only Statement I
(B) Only Statement II
(C) Both Statements I and II
(D) Neither Statement I nor II

Oct/Nov 2019

20. The money market in India witnessed significant progress from the mid-1990s with the introduction of new instruments. All of the following were part of the money market instruments during this period, EXCEPT:
(A) Sovereign Gold Bonds
(B) Term Money
(C) Commercial Paper
(D) Rediscounting of Commercial Bills scheme

May/June 2009

21. A financial historian studying the Indian Government securities market prior to the 1990s notes that a deep and liquid market could not emerge. Financing of the Central Government budget deficit was done through an arrangement of automatic monetization. Which of the following peculiarities characterized the market operations during that era?
(A) Advanced electronic order matching and fully anonymous trading
(B) Real-time gross settlement of corporate bonds via INFINET
(C) Voucher trading, switch quotas, and the use of separate purchase and sale lists
(D) Delivery versus Payment (DvP) combined with interest rate swaps

Oct/Nov 2011

22. Examine the following statements regarding the structure of financial markets in India and select the correct option.
I. The capital market falls within the purview of the Securities and Exchange Board of India (SEBI).
II. The money, Government securities, and foreign exchange markets are regulated by the Reserve Bank of India.
III. The insurance market is regulated by the Insurance Regulatory and Development Authority (IRDA).
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2010

23. Consider the following statements about the features of the Indian money market during the 1970s and 1980s:
I. It was a restricted market with a narrow base and limited number of participants.
II. The overall size of the market was very small, with overall transactions barely forming 3 to 4 per cent of bank deposits.
III. The market was characterized by a vast array of instruments including sophisticated derivatives.
IV. Interest rates in the market were tightly regulated and controlled by a voluntary agreement through the Indian Banks Association (IBA).
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) I, II, and IV
(C) II, III, and IV
(D) I, III, and IV

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compared to the previous year.
II. The weighted average coupon on the entire outstanding debt stock decreased by 16 bps.
III. The weighted average maturity (WAM) of primary issuances increased to 16.99 years.
IV. The WAM of the outstanding debt increased from 11.31 years to 11.71 years.
V. Partial devolvement on Primary Dealers took place on seventeen instances amounting to ₹97,938 crore.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2013

36. During the late 1980s, large external imbalances were reflected in a rising level of external indebtedness. Which specific geopolitical event in July 1990 triggered off an unprecedented crisis of liquidity and confidence, necessitating exceptional corrective steps?
(A) The Gulf War
(B) The collapse of the Breton Woods agreement
(C) The East Asian Crisis
(D) The floatation of the Pound Sterling

May/June 2015

37. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.
Assertion (A): During the pre-reform period, there was not much scope for using open market operations in Government securities for controlling liquidity.
Reason (R): The market for Government and semi-Government securities was narrow, and operations were therefore directed mainly at ensuring orderly conditions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

38. Identify the incorrect pair concerning the holding pattern of Government Securities by commercial banks from the options given below:
(A) Peak holding share at end-March 1994 : 72 per cent
(B) Holding share at end-March 1998 : 58 per cent
(C) Holding share as on March 31, 2017 : 40.46 per cent
(D) Holding share by March 2022 : 45.8 per cent

May/June 2011

39. Before the 1990s, the foreign exchange market in India was highly regulated. What was the primary stance of policy during this control regime?
(A) To encourage the unchecked floatation of the rupee against the US dollar
(B) To promote uncontrolled capital account convertibility for financial firms
(C) To establish a parallel hawala market intentionally to supplement official reserves
(D) To strictly manage the exchange rate mainly for facilitating India's imports

Oct/Nov 2020

40. The Central Government has 111 outstanding securities, but only 20 have a size of ₹15,000 crore or more. To improve market liquidity, the Reserve Bank identifies an imperative need for active consolidation. What procedural action does active consolidation primarily involve?
(A) Issuing an unlimited quantity of new 14-day Treasury Bills
(B) Converting all long-term dated securities into zero-coupon bonds
(C) Mandating primary dealers to underwrite only corporate equity issuances
(D) Exchanging illiquid securities for a smaller number of liquid issuances

May/June 2022

41. Consider the following statements regarding the state of the forex market in India in the early 1990s:
I. The spot as well as forward markets lacked depth and liquidity.
II. The market was skewed with a handful of public sector banks accounting for bulk of the merchant business.
III. Forward rates perfectly reflected interest rate

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and providing a rules-based framework
(C) It utilizes tactical controls exclusively by permanently pegging the rupee to the US dollar.
(D) It mandates that all capital inflows must be immediately surrendered to the CCIL for overnight repos.

May/June 2007

89. A commercial bank holds several USD LIBOR-linked legacy contracts that extend beyond 2021. The FCA established that certain US dollar LIBOR settings will continue to be published till June 30, 2023. What is the primary aim of this timeline extension?
(A) To encourage banks to write new financial contracts referencing LIBOR up to 2023
(B) To facilitate legacy contract roll-off without encouraging continued LIBOR reliance
(C) To allow FBIL time to develop a brand new overnight inter-bank rate
(D) To automatically convert all legacy contracts into sovereign gold bonds

Oct/Nov 2025

90. The global financial crisis of 2008 led to a renewed debate about the adequacy of forex reserves. What is the current prevailing thought regarding large reserves for Emerging Market Economies (EMEs) like India?
(A) Maintaining larger reserves as a crisis buffer outweighs associated quasi-fiscal costs
(B) Large reserves are considered entirely wasteful on account of quasi-fiscal costs and should be minimized.
(C) Reserves should be held exclusively in Special Drawing Rights (SDRs) to avoid exchange rate volatility.
(D) EMEs should liquidate large reserves to fund domestic infrastructure projects directly.

May/June 2012

91. According to the observed trends in the primary Certificates of Deposit (CD) market, the weighted average discount rates softened in late 2020. What was the approximate weighted average discount rate by end-March 2021 after subsequent inching up?
(A) 3.5 per cent
(B) 3.7 per cent
(C) 4.7 per cent
(D) 7.4 per cent

Oct/Nov 2014

92. Which of the following statements accurately characterizes the overall approach to financial market reforms in India starting from the mid-1980s?
(A) The reforms were implemented as a sudden overnight big-bang to instantly integrate with global markets.
(B) Implementing a "big bang" liberalization strategy aimed at instant global integration
(C) Following a gradual, well-calibrated approach that gathered momentum in the early 1990s
(D) The approach strictly avoided any deregulation of the financial sector until 2010.

May/June 2019

93. Match the committees/Acts related to the forex market reform in List I with their respective years in List II and select the correct answer using the options provided.
List I: (Committee/Act)
P. Rangarajan Committee
Q. Sodhani Committee
R. Tarapore Committee
S. Foreign Exchange Management Act (FEMA)
List II: (Year)
1. 1992
2. 1995
3. 1997
4. 1999
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2006

94. With the introduction of the fully accessible route (FAR) with effect from April 1, 2020, the number of securities included under the FAR scheme increased. What was the final number of securities and their corresponding outstanding stock as on March 31, 2021?
(A) Five securities with an outstanding stock of ₹4,34,224 crore
(B) Twelve securities with an outstanding stock of ₹11,79,423 crore
(C) Twenty securities with an outstanding stock of ₹15,000 crore
(D) Thirty securities with an outstanding stock

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(A) The withdrawal of 14-day and 182-day Treasury Bills coupled with an increase in the notified amount of 91-day Treasury Bills
(B) The mandatory requirement for all state governments to issue solely capital-indexed bonds
(C) The introduction of the Negotiated Dealing System (NDS) to facilitate electronic bidding and secondary market trading
(D) The setting up of CCIL to act as the counterparty in all trades involving government securities and Treasury Bills

May/June 2012

49. Match the following investment routes and statistics for Foreign Portfolio Investors (FPIs) in G-secs in List I with their corresponding details in List II and select the correct answer using the options provided.

List I: (Investment Route)
P. Fully Accessible Route (FAR)
Q. General route
R. Voluntary Retention Route (VRR)
S. Outstanding stock under FAR scheme as on March 31, 2021

List II: (Detail/Statistic)
1. Introduced with effect from April 1, 2020
2. Investment limits set under the medium-term framework (MTF)
3. Has a combined investment limit of ₹1,50,000 crore for G-secs and corporate bonds
4. ₹11,79,423 crore across twelve securities

(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2014

50. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): The Reserve Bank was able to achieve the twin objectives of elongation of maturity profile of new debt and reduction in the cost of borrowing.

Reason (R): A falling interest rates scenario witnessed generally and a comfortable liquidity position in the system helped the Reserve Bank achieve these objectives.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

51. Which of the following committees did NOT provide impetus for forex market reform during the 1990s?
(A) Rangarajan Committee (1992)
(B) Sodhani Committee (1995)
(C) Tarapore Committee (1997)
(D) Vaghul Committee (1987)

Oct/Nov 2006

52. In May 1997, to ensure that the borrowing programme of the Government could be completed without destabilizing the financial markets, the Reserve Bank and the Government established a specific entity. Identify the entity.
(A) The Fixed Income Money Market and Derivatives Association (FIMMDA)
(B) The Financial Benchmarks India Pvt. Ltd. (FBIL)
(C) The Clearing Corporation of India Ltd. (CCIL)
(D) The Cash and Debt Management Group

May/June 2021

53. Identify the correct pair regarding the net market borrowings of the Central Government for the year 2021-22 from the options given below:
(A) Net market borrowings through dated G-secs : Financed 62.9 per cent of the revised gross fiscal deficit (GFD)
(B) Net market borrowings through T-Bills : Increased by 141.2 per cent as compared with the previous year
(C) Net G-sec borrowings financed 54.2 per cent of the revised gross fiscal deficit
(D) Gross market borrowings through dated G-secs : Was higher by 17.7 per cent as compared with the previous year

Oct/Nov 2010

54. For the purpose of managing foreign exchange reserves, the Reserve Bank is empowered to buy and sell foreign exchange from and to scheduled

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(D) The withdrawal of the fully accessible route (FAR) for government securities

Oct/Nov 2024

66. Consider the following statements regarding the structural issues and consolidation of the government securities market:

I. Since the late 1990s, the Reserve Bank followed a policy of passive consolidation.
II. Out of 111 outstanding securities, only 20 had a size of ₹15,000 crore or more, highlighting the presence of many small sized illiquid securities.
III. There is an imperative need for active consolidation by buying back illiquid securities.
IV. A structural issue affecting active consolidation is the skewed pattern of holding of Government securities.
V. The impact on banks' balance sheets of selling securities out of their 'Held to Maturity' category needs to be addressed.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

May/June 2017

67. Consider the features of the Liberalized Exchange Rate Management System (LERMS) introduced on March 1, 1992:

I. It was a dual exchange rate system.
II. All foreign exchange receipts on current account transactions were required to be surrendered to the ADs in full.
III. 60 per cent of the proceeds were converted at the market rate quoted by the ADs.
IV. The remaining 40 per cent of the proceeds were converted at the Reserve Bank's official rate.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

Oct/Nov 2005

68. Examine the following statements regarding the governance framework of financial benchmarks and select the correct option.

I. Revelations regarding the manipulation of LIBOR in June 2012 shocked the entire global financial markets.
II. The IOSCO has issued Principles on Financial Benchmarks to suggest robust improvements in the benchmark governance framework.

(A) Only Statement I
(B) Only Statement II
(C) Both Statements I and II
(D) Neither Statement I nor II

May/June 2020

69. Consider the following statements regarding fallback clauses during the LIBOR transition:

I. Banks are urged to incorporate robust fallback clauses in all financial contracts referencing LIBOR that mature after the cessation date.
II. Standard fallback clauses have been developed by various agencies such as ISDA, IBA, LMA, APLMA, and BAFT.
III. Fallback clauses are strictly prohibited for legacy contracts to ensure forced migration to Alternate Reference Rates.

Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2015

70. On account of the large outstanding forward positions, banks in India carry risks on their books. To mitigate these risks, CCIL commenced the guaranteed settlement of US dollar-rupee forward transactions from the trade date. When did this take effect?
(A) August 2005
(B) December 01, 2009
(C) June 2012
(D) December 2014

May/June 2013

71. A forex trader reviewing the Indian market in the early 1990s notices that the forward rates did not conform to standard interest rate parity theories. What was the primary cause for this behavior of forward rates during that period?
(A) Forward rates reflecting supply-demand dynamics due to lack of market integration
(B) Forward rates were strictly administered by the Indian Banks Association.

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increased following the recommendations of an Advisory Committee to facilitate this?
(A) Cash Reserve Ratio (CRR) maintenance limits
(B) Ways and Means Advances (WMA) limits
(C) Foreign Portfolio Investment (FPI) limits
(D) Exchange Earners' Foreign Currency (EEFC) account limits

May/June 2025

61. ADs have been permitted to avail of loans and overdrafts from their overseas branches. They are provided the flexibility to access these limits solely for replenishing their rupee resources in India for normal business operations. For which of the following purposes are these funds strictly NOT allowed to be deployed?
(A) Replenishing their rupee resources in India
(B) Conducting normal business operations
(C) Deploying funds in the call money markets or lending in foreign currencies
(D) Settling civil debt service payments of the Government of India

Oct/Nov 2019

62. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.
Assertion (A): The February 2018 Statement on Developmental and Regulatory Policies proposed that FBIL would assume the responsibility for standardizing the valuation of Government securities.
Reason (R): This task of valuation was currently being done by the Fixed Income Money Market and Derivatives Association (FIMMDA).
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

63. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.
Assertion (A): On March 2, 1993, all foreign exchange receipts were converted at market determined rates of exchange.
Reason (R): The ultimate convergence and unification of exchange rates marked an important step in the progress towards convertibility on the current account.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

64. Consider the framework banks must put in place for the LIBOR transition:
I. Undertake a comprehensive review of all direct and indirect LIBOR exposures.
II. Put in place a framework to mitigate risks arising from transitional issues including valuation and contractual clauses.
III. Put in place necessary infrastructure to offer products referencing the Alternative Reference Rates (ARR).
IV. Continue efforts to sensitise clients about the transition, methodology, and convention changes involved in the alternatives.
Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, III, and IV

May/June 2010

65. In May 2013, Chairman Bernanke's testimony about the possibility of an early QE-tapering led to a sharp depreciation of the rupee. Which of the following was part of the mix of policy measures India resorted to in order to stem this excessive depreciation?
(A) Reducing access to overnight LAF and increasing the Marginal Standing Facility rate
(B) A complete ban on the trading of Certificates of Deposit
(C) The immediate transition to a fully fixed exchange rate regime pegged to the Euro

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banks. Under which specific section of the Reserve Bank of India Act, 1934 is this power derived?
(A) Section 16
(B) Section 17(3)(a)
(C) Section 24
(D) Section 40

May/June 2005

55. The Medium-Term Debt Management Strategy formulated in consultation with the central government outlines an agenda for 2016-17. Which of the following is NOT part of that agenda?
(A) Imparting liquidity strictly to corporate commercial papers while phasing out State Development Loans (SDLs)
(B) Formulating a market making scheme for enhancing G-sec market liquidity
(C) Working towards better information sharing and daily cash flow forecasting through the Cash Coordination Committee (CCC)
(D) Improving the design of Sovereign Gold Bond (SGB) to attract retail investors

Oct/Nov 2022

56. Identify the incorrect statement regarding the institutional strengthening of the Government securities market:
(A) The Reserve Bank, effective February 2000, ceased all purchases of Treasury Bills through OMO to restrict exclusive access to PDs.
(B) The Securities Trading Corporation of India (STCI) was set up by the Reserve Bank jointly with public sector banks and FIs in May 1994.
(C) The system of Primary Dealers (PDs) in Government securities was introduced in March 1996 to provide two-way quotes.
(D) A delivery versus payment system (DvP) was introduced in transactions in the Government securities market from July 1995.

May/June 2018

57. Examine the following statements regarding the exchange rate regime change in 1975 and select the correct option.
I. The Indian rupee was de-linked from the Pound Sterling.
II. Under the managed floating arrangement, the external value of the rupee was determined by the Reserve Bank in terms of a weighted basket of the currencies of India's major trading partners.
(A) Only Statement I
(B) Only Statement II
(C) Both Statements I and II
(D) Neither Statement I nor II

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Oct/Nov 2016

58. Consider the following statements regarding the maturity profile of government securities:
I. There has been an elongation in the average maturity profile of government securities from 5.7 years in 1996 to 14.1 years in 2005.
II. The Reserve Bank successfully increased the tenor of government securities progressively to 30 years, and recently to a 40-year issuance.
III. The elongation of the maturity profile was implemented strictly in the context of a rising interest rate scenario to maximize investor yields.
Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

May/June 2014

59. According to the structural definition of the foreign exchange market in India, which entities basically comprise the market?
(A) Only the Reserve Bank of India and foreign central banks
(B) Only scheduled commercial banks and the Securities and Exchange Board of India (SEBI)
(C) Authorised Dealers, exporters, importers, individuals, and the Reserve Bank of India
(D) Financial Benchmarks India Pvt Ltd (FBIL) and international credit rating agencies exclusively

Oct/Nov 2007

60. During the year 2020-21, a major challenge in the aftermath of the COVID-19 pandemic was the management of debt for state governments. Despite an increase in supply mainly on account of issuance of UDAY bonds, state government borrowings were managed at a lower cost. Which of the following limits were specifically

(C) Forward rates were artificially pegged to the Pound Sterling regardless of market liquidity.
(D) Forward rates were heavily skewed by the immediate introduction of fully accessible routes for FPIs.

Oct/Nov 2021

72. With effect from October 4, 1995, the Reserve Bank discontinued quoting its buying and selling rate and instead announces a Reference Rate. How is this Reference Rate determined daily?
(A) Based on the overnight MIBOR polled from primary dealers at 9:00 AM
(B) Based on the quotations of a few select banks in Mumbai at twelve noon every day
(C) Based solely on the closing rates of the US Federal Reserve on the previous day
(D) Based on an automated algorithm executing trades on the CCIL platform at 3:30 PM

May/June 2024

73. A market analyst relies on periodic benchmarks conforming to the highest standards of integrity and precision. Which institution is currently responsible for publishing benchmarks relating to overnight MIBOR, FC-Rupee Options Volatility Index, and the Market Repo Overnight Rate?
(A) Securities Trading Corporation of India (STCI)
(B) Discount and Finance House of India (DFHI)
(C) Clearing Corporation of India Ltd. (CCIL)
(D) Financial Benchmarks India Pvt. Ltd. (FBIL)

Oct/Nov 2008

74. The Indian Rupee exhibited greater stability during 2014-15 as compared to major currencies. Which of the following positive macroeconomic parameters contributed to this stability?
(A) A CPI inflation rate of 15.1 per cent in January 2015
(B) An increased fiscal deficit target of 8.5 per cent of GDP
(C) CPI inflation of 5.1 per cent in January 2015 and a reduced fiscal deficit target
(D) A significant rise in the current account deficit to 19 per cent of GDP

May/June 2006

75. Identify the correct pair regarding the aggregate principal amount invested by the Reserve Bank under the special liquidity scheme for NBFCs/ HFCs as of July 1, 2020 from the options given below:
(A) Aggregate principal amount invested : ₹3,36,371 crore
(B) Aggregate principal amount invested : ₹7,126 crore
(C) Aggregate principal amount invested : ₹80,000 crore
(D) Aggregate principal amount invested : ₹1,50,000 crore

Oct/Nov 2017

76. As LERMS functioned as a transitional arrangement, it resulted in certain distortions. Specifically, there were indications of the diversion of remittances from their normal route to the capital account. Why did this occur?
(A) Remittances in the form of current transfers were fully converted at the market exchange rate, while capital account inflows were taxed.
(B) Authorised Dealers arbitrarily applied a 15 per cent ceiling on the conversion of all foreign exchange receipts.
(C) The Reserve Bank restricted the sale of Pound Sterling entirely, forcing individuals to use hawala channels for remittances.
(D) Select non-resident accounts allowed full market conversion, unlike standard current transfers.

May/June 2008

77. Read the following statements regarding RBI directions on MIFOR and identify the incorrect one. Banks may trade in MIFOR after December 31, 2021 ONLY for specific purposes. Which of the following is NOT a permitted purpose?
(A) Transactions executed to support risk management activities such as hedging
(B) Required participation in central counterparty procedures
(C) Market-making in support of client activities or novation of MIFOR transactions executed on or before December 31, 2021
(D) Engaging in aggressive proprietary directional trading to capture inter-bank arbitrage

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Oct/Nov 2013

78. Greater liberalization in the derivatives market requires banks to introduce a customer suitability and appropriateness policy. What does the "appropriateness standard" specifically ensure?

(A) It ensures that all complex derivative transactions are fully guaranteed by the Central Government.

(B) It limits derivative transactions solely to public sector banks with no exposure to foreign portfolio investors.

(C) It mandates that all non-resident rupee deposits are converted at the official exchange rate.

(D) Applying the same credit decision principles for complex derivatives as for non-derivatives

May/June 2015

79. Read the following statements regarding the Road Map for LIBOR Transition and identify the incorrect one.

(A) The Financial Conduct Authority (FCA), UK announced on March 05, 2021 that LIBOR will either cease or no longer be representative.

(B) All remaining US dollar settings ceased immediately after December 31, 2021.

(C) Pound sterling, Euro, Swiss franc and Japanese yen settings ceased immediately after December 31, 2021.

(D) The 1-week and 2-month US dollar settings ceased immediately after December 31, 2021.

Oct/Nov 2012

80. What was the approximate level of India's total foreign exchange (Forex) reserves on October 07, 2022?

(A) US$ 360 billion

(B) US$ 532.838 Billion

(C) US$ 576.9 billion

(D) US$ 630 billion

May/June 2011

81. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): There is a need for greater clarity of derivative accounting in the books of banks and corporates in India regarding revenue recognition and valuation.

Reason (R): Derivatives accounting in India is still in the formative stage, making it imperative to be transparent and disclose the nature and quantum of risks contracted.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

82. Consider the following initiatives taken by the Reserve Bank to ease banks' participation and widen the foreign exchange market:

I. Freedom to banks to fix net overnight position limits and gap limits, subject to formal RBI approval.

II. Freedom to determine the interest rates and maturity period of FCNR(B) deposits not exceeding three years.

III. Allowing ADs to borrow abroad up to 15 per cent of their unimpaired Tier-I capital or US$ 10 million.

IV. Permitting corporates significant freedom in managing their foreign exchange exposures, including hedging anticipated exposures.

V. Rationalization of the Exchange Earners' Foreign Currency (EEFC) account entitlement.

Which of the above statement(s) is/are correct?

(A) I, II, III, and IV

(B) II, III, IV, and V

(C) I, III, IV, and V

(D) I, II, III, IV, and V

May/June 2022

83. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer using the codes given below.

Assertion (A): In the post-reforms era, the foreign exchange market in India has developed significantly, showing an increase in both depth and liquidity.

Reason (R): The average daily forex market

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turnover rose from approximately US$ 16 billion in 2005-06 to nearly US$ 55 billion in 2014-15.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. A treasury dealer is executing fresh contracts in July 2021 and needs to replace the traditional Mumbai Interbank Forward Outright Rate (MIFOR). FBIL has started publishing updated rates. Which rate can be used for these fresh contracts from June 30, 2021?

(A) Original unchanged MIFOR
(B) Adjusted LIBOR synthetic rate
(C) Modified MIFOR rates
(D) Pure overnight call money rate

May/June 2016

85. Match the following entities related to the financial benchmarks in India in List I with their corresponding roles or timeline in List II and select the correct answer using the options provided.

List I: (Entity/Committee)
P. Committee on Financial Benchmarks set up in June 2013
Q. Designated benchmark administrator for Indian rupee interest rates
R. Designated benchmark administrator for Forex benchmarks
S. Financial Benchmarks India Pvt. Ltd (FBIL) formation

List II: (Role/Timeline)
1. Chairman Shri Vijay Bhaskar
2. FIMMDA
3. FEDAI
4. December 2014

(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-1, R-2, S-3

Oct/Nov 2009

86. Match the milestones of the Indian foreign exchange market in List I with their effective periods in List II and select the correct answer using the options provided.

List I: (Milestone)
P. Discontinuation of quoting buying and selling rate by RBI
Q. Routing of debt service payment (civil) of GoI through the market
R. Euro became an additional intervention currency
S. US dollar replaced Pound Sterling as intervention currency

List II: (Effective Period)
1. March 1993
2. July 3, 1995
3. October 4, 1995
4. March 2002

(A) P-3, Q-2, R-4, S-1
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-4, R-1, S-3

NODIA

May/June 2023

87. Match the movements of the 10-year generic G-sec yield during the quarters of 2020-21 in List I with their corresponding magnitude in List II and select the correct answer using the options provided.

List I: (10-year generic G-sec yield movement during 2020-21)
P. Softening of yield in Q1:2020-21
Q. Hardening of yield in Q2:2020-21
R. Decline of yield in Q3:2020-21
S. Hardening of yield in Q4:2020-21

List II: (Magnitude)
1. 13 bps
2. 15 bps
3. 25 bps
4. 30 bps

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-3, S-1

Oct/Nov 2018

88. The vulnerability of the Indian financial system to pro-cyclical and uncertain capital flows remains a concern. How does the RBI approach the management of capital inflows regarding strategic controls?

(A) It applies strategic controls by completely prohibiting all foreign direct investment.
(B) Defining a pecking order of capital flows

differentials due to the complete integration between the money and forex markets.

Which of the above statement(s) is/are correct?
(A) I and II
(B) II and III
(C) I and III
(D) I, II, and III

Oct/Nov 2023

42. Examine the following statements concerning the investor base in the Government securities market and select the correct option.
I. Banks have historically been the dominant investors in Government securities primarily on account of SLR requirements.
II. Banks have never invested in Government securities beyond the statutory requirements due to the high risk weights assigned to such investments.
(A) Only Statement I
(B) Only Statement II
(C) Both Statements I and II
(D) Neither Statement I nor II

May/June 2016

43. In April 2020, generic G-sec yields initially hardened due to selling pressure from FPIs and redemption stress in the deputy fund sector. Subsequently, the yields softened. Which combination of actions by the Reserve Bank led to this tracking moderation?
(A) The immediate increase of the repo rate by 40 bps and the cessation of OMOs
(B) The announcement of a special liquidity facility for mutual funds (SLF-MF) and the conduct of OMOs
(C) The withdrawal of the fully accessible route (FAR) and an increase in US treasury yields
(D) A sovereign rating downgrade by Moody's combined with border tensions

Oct/Nov 2009

44. According to the issuance pattern of Government of India Dated Securities during 2021-22, what percentage of the market borrowings was raised through the issuance of dated securities with a residual maturity of 10 years and above?
(A) 20.3 per cent
(B) 28.6 per cent
(C) 49.0 per cent
(D) 58.2 per cent

May/June 2023

45. As trading volumes increased and profit motives led to irregular practices in the forex market, the need for a comprehensive set of guidelines was felt. Which document was framed for adoption by banks in 1981 to cover the gamut of dealing operations?
(A) Principles on Financial Benchmarks
(B) Foreign Exchange Management (Current Account) Rules
(C) Guidelines for Internal Control over Foreign Exchange Business
(D) Road Map for LIBOR Transition

Oct/Nov 2018

46. Consider the following statements regarding the watershed development of the Government securities market in the 1990s:
I. An auction system for dated securities was introduced in June 1992.
II. Innovations such as zero-coupon bonds and floating rate bonds were introduced.
III. The uniform price auction method was introduced in respect of 91-day Treasury Bills to eliminate the problem of the "winner's curse".
IV. The sale of Government securities in India transitioned exclusively to private placements, completely abandoning tap issues.

Which of the above statement(s) is/are correct?
(A) I, II, and III
(B) II, III, and IV
(C) I, III, and IV
(D) I, II, and IV

May/June 2007

47. The Reserve Bank of India historically purchased several foreign currencies under Section 17(3) of the Act. Which of the following currencies was EXCEPTED (not listed) as being purchased by the Reserve Bank under this specific section?
(A) Pound Sterling
(B) Swiss Franc
(C) US dollar
(D) Deutsche Mark

Oct/Nov 2025

48. Several measures have been taken to improve the functioning of the Government securities market. All of the following are recognized measures EXCEPT:

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of ₹3,38,062 crore

May/June 2021

95. Consider the following statements regarding the navigation and attributes of the money market:

I. It provides the fulcrum for equilibrating short-term demand for and supply of funds.
II. It facilitates the conduct of monetary policy.
III. It is a market for short-term funds with a maturity of up to one year.
IV. It serves as a focal point for central bank intervention for influencing liquidity.
V. It provides reasonable access to users to fulfil their borrowing requirements at an efficient market clearing price.

Which of the above statement(s) is/are correct?

(A) I, II, III, and V
(B) II, III, IV, and V
(C) I, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2010

96. What is the stated policy and objective of the Reserve Bank regarding interventions in the Indian forex market under the current floating rate regime?

(A) To aggressively target a fixed nominal exchange rate against the US dollar
(B) Addressing temporary supply-demand imbalances to prevent volatility without a fixed target
(C) To intervene strictly to establish parity with the Euro and Pound Sterling
(D) To manipulate the exchange rate systematically to maximize export revenues above all other considerations

May/June 2005

97. A banking researcher analyses the historical share of commercial banks holding Government securities. The holding share rose during the 1980s and early 1990s before declining. At what percentage did this holding share reach a peak as at end-March 1994?

(A) 39.1 per cent
(B) 58 per cent
(C) 72 per cent
(D) 85 per cent

Oct/Nov 2022

98. Read the following statements regarding the orderly development of the money market and identify the incorrect one.

(A) Prudential limits have been set on borrowing and lending in the call money market for different categories of participants.
(B) Restricting call money market flexibility to banks while excluding Primary Dealers
(C) Improvements in the Asset Liability Management (ALM) framework aid in risk management systems in the banks.
(D) The feasibility of migrating from different benchmarks to standardized benchmark needs to be explored.

May/June 2018

99. Which of the following regulators is correctly mapped to the market segment it oversees in the Indian financial system?

(A) The money market is regulated by the Securities and Exchange Board of India (SEBI).
(B) The Government securities market is regulated by the Insurance Regulatory and Development Authority (IRDA).
(C) The foreign exchange market is regulated jointly by SEBI and IRDA.
(D) The capital market falls within the purview of the Securities and Exchange Board of India (SEBI).

NODIA

Oct/Nov 2016

100. In the context of global market turmoil and geopolitical shocks such as the COVID-19 crisis and the Russia-Ukraine war, which of the following statements accurately reflects the performance of the Indian financial markets?

(A) They exhibited immediate collapse and required full suspension of trading activities.
(B) They exhibited identical pro-cyclical volatility as global markets without any stabilizing buffers.
(C) They were completely unaffected due to the total prohibition of foreign portfolio investments.
(D) Exhibiting stability and resilience through interventions by the Government and Reserve Bank

ANSWERS

1. (D) Replacing automatic deficit monetization via ad hoc Treasury Bills with Ways and Means Advances
The abolition of the system of automatic monetization of the budget deficit through ad hoc Treasury Bills was a landmark event. Replacing it with Ways and Means Advances in 1997 forced the government to borrow from the market. This shift necessitated the development of a functional government securities market and money market to manage liquidity effectively.

2. (C) Investor preference for holding to maturity due to returns and inter-state stamp duty variations
Investors in the Indian commercial paper market predominantly follow a buy-and-hold strategy to earn returns until maturity. Furthermore, variations in inter-state stamp duties on the physical transfer of instruments create additional hurdles for active trading. These factors, combined with limited participation, hinder the emergence of a robust and liquid secondary market for these short-term corporate debt instruments.

3. (A) Only Statement I is correct
Certificates of deposit represent large-denomination deposits that offer lower transaction costs compared to retail deposits, making them attractive for institutional players. Regional Rural Banks are generally not permitted to issue inter-bank participation certificates under current guidelines. Therefore, only the statement regarding the size and cost efficiency of certificates of deposit is accurate within the current regulatory framework.

4. (D) I, II, and III
The weighted average call rate serves as the primary operating target for monetary policy in India. During 2020-21, surplus liquidity conditions caused this rate to trade significantly below the policy repo rate. Concurrently, the volatility in this segment, as measured by the coefficient of variation, showed a notable decline compared to the previous financial year's levels.

5. (C) 15 per cent
To address the unsustainable surge in call money rates that reached nearly thirty per cent in late 1973, the Indian Banks Association intervened. A ceiling was established to restore order and protect the banking system from extreme distortions. This initial cap was set at fifteen per cent, representing a crucial regulatory step in managing inter-bank borrowing costs effectively.

6. (B) From Section 16 of the Securities Contract (Regulation) Act, 1956
The regulatory authority of the Reserve Bank over the government securities market is primarily derived from specific legislative provisions. Section sixteen of the Securities Contract Regulation Act of 1956 empowers the central bank to regulate transactions in these instruments. This legal foundation ensures that the market operates within a structured framework, maintaining stability and transparency in public debt management.

7. (B) To enable efficient market-based monetary policy by improving interest rate signals
Developing deep and well-regulated financial markets is essential for the efficient transmission of monetary policy. Such markets improve interest rate signals, allowing central bank actions to influence broader economic conditions effectively. This process enhances the allocative efficiency of financial intermediation and supports overall economic stability by providing a transparent environment for determining the market-clearing prices of various instruments.

8. (B) Market making for transactions involving underlying permissible foreign exchange exposures
Regulations effective from May 2005 updated the use of the Mumbai Inter-bank Forward Offered Rate for hedging interest rate risks. While certain restrictions were introduced, market participants retain the ability to use these swaps for market making in transactions related to underlying permissible foreign exchange exposures. This allows for necessary risk management while

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ensuring the derivatives market remains functional.

9. (B) The average call money rate fluctuated within a range of 4.6 to 9.2 per cent during 2000-05
Historical analysis of the Indian call money market shows significant fluctuations in interest rates over different decades. Between 2000 and 2005, the average rates moved within a specific range of four point six to nine point two per cent. This period reflected the gradual stabilization of the money market following various reforms aimed at improving liquidity management and transparency.

10. (C) The call money market transitioned into a pure inter-bank market, excluding primary dealers, by August 2005.
The reform process aimed to transform the call money market into a pure inter-bank segment. By August 2005, non-bank entities were phased out as lenders, but primary dealers were still permitted to participate. The development of the repo and collateralized borrowing markets provided alternative avenues for those entities excluded from the call money market to manage their liquidity.

11. (B) 25 per cent of their total demand and time liabilities
The Banking Regulation Act underwent a significant amendment in September 1964 to strengthen the liquid asset requirements for banks. This change mandated that all banks maintain a minimum amount of liquid assets, known as the Statutory Liquidity Ratio. The initial minimum requirement was established at twenty-five per cent of their total demand and time liabilities to ensure banking sector stability.

12. (A) P-4, Q-2, R-3, S-1
Key institutional developments in the Indian financial system occurred over several years. The Chakravarty Committee submitted its report in 1985, followed by the Vaghul Committee in 1987. The Discount and Finance House of India was established in 1988 to support the money market. Finally, the Narasimham Committee on the Financial System provided its influential recommendations during 1991 for broader reforms.

13. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Banks often engage in arbitrage between different segments of the money market based on interest rate differentials. Because inter-bank call rates have historically tended to be lower than the rates on commercial paper, banks can borrow cheaply in the call market and invest in commercial paper. This practice exploits the spread between the two instruments to maximize short-term investment returns.

14. (C) Short-term instruments used by central banks to manage liquidity and smooth market rate volatility
Repurchase agreements are vital short-term money market instruments that allow the central bank and commercial banks to manage liquidity effectively. These transactions involve the sale of securities with a commitment to buy them back at a later date. They play a critical role in smoothing volatility in market interest rates and implementing the operating targets of national monetary policy frameworks.

15. (D) The large Government borrowing requirements
The primary driver for developing the government securities market in India was the substantial borrowing requirement of the central government. As fiscal deficits increased, the need for a formal market to absorb debt became critical. During the 1990s, this was further supplemented by the need for sterilization of large capital inflows to maintain monetary stability and control inflationary pressures effectively.

16. (A) III, IV, II, I
Financial market reforms followed a specific sequence beginning with the Chakravarty Committee report in 1985. This was followed by the Vaghul Committee recommendations in 1987. Subsequently, the Discount and Finance House of India was established in 1988. Finally, the introduction of new instruments like certificates of deposit and commercial paper occurred as part of the implementation of these committee suggestions.

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17. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
During the global market turmoil of 2020, the Reserve Bank launched a special liquidity scheme for non-banking financial companies and housing finance companies. By providing funding at the repo rate, the central bank aimed to alleviate liquidity stress in these sectors. This proactive measure was intended to prevent potential systemic risks and ensure the stability of the broader financial system.

18. (A) To act as a focal point for central bank interventions to influence liquidity and interest rates
A well-functioning money market serves as the primary focal point for central bank interventions to influence systemic liquidity and interest rates. It provides a mechanism for equilibrating short-term demand and supply of funds, which is essential for the effective transmission of monetary policy signals. This ensures that short-term rates reflect policy objectives while providing users with efficient access to funds.

19. (B) Only Statement II
While the secondary market for certificates of deposit in India remains relatively underdeveloped, the instrument's flexibility has been enhanced through various regulatory changes. Reductions in the minimum lock-in period and the minimum issuance amount have made these instruments more accessible. These adjustments aim to improve the depth of the market, although widespread retail participation has not yet materialized as expected.

20. (A) Sovereign Gold Bonds
During the mid-1990s, the Indian money market saw the introduction and growth of various instruments like commercial paper, term money, and commercial bill rediscounting. These tools were designed to manage short-term liquidity and funding needs. Sovereign Gold Bonds, however, are long-term investment vehicles introduced much later and do not fall under the category of traditional money market instruments or reforms.

21. (C) Voucher trading, switch quotas, and the use of separate purchase and sale lists
Before the 1990s reforms, the Indian government securities market was characterized by highly regulated and inefficient practices. Trading often involved archaic methods such as voucher trading and the use of switch quotas. The absence of a transparent electronic system meant that the market was narrow and illiquid, relying on administrative measures rather than market-driven price discovery for managing government debt.

22. (D) I, II, and III
The Indian financial system is overseen by multiple specialized regulators. The Securities and Exchange Board of India manages the capital markets, while the Reserve Bank of India regulates the money, government securities, and foreign exchange markets. Additionally, the insurance sector is governed by the Insurance Regulatory and Development Authority. This multi-layered regulatory framework ensures stability and oversight across different financial segments.

23. (B) I, II, and IV
During the 1970s and 1980s, the money market was restricted with very few participants and low transaction volumes. It lacked sophisticated instruments like derivatives, consisting mainly of a small call money segment. Interest rates were not market-determined but were tightly controlled through voluntary agreements within the banking industry, which limited the market's ability to signal liquidity conditions or risks.

24. (C) April 19, 1997
To encourage the development of a robust term money market, the Reserve Bank implemented a significant policy change in April 1997. Banks were exempted from maintaining the Cash Reserve Ratio and Statutory Liquidity Ratio on their inter-bank liabilities. This move was intended to reduce the cost of inter-bank transactions and foster a more active and liquid market for longer-term funds.

25. (A) I, II, III, and IV
Significant repo market reforms since 1999 include the establishment of the Clearing Corporation of India and the introduction of

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the Delivery versus Payment system. These changes enabled efficient settlement and the rollover of transactions. Additionally, the launch of Collateralized Borrowing and Lending Obligations and the expansion of eligibility to non-SGL account holders significantly increased market depth and participation across various entities.

26. (D) March 2003
As part of the broader financial sector reforms and to reduce its direct involvement in market-making activities, the Reserve Bank decided to divest its stake in certain institutions. In March 2003, the central bank completed the divestment of its shareholding in the Discount and Finance House of India. This move aimed to encourage private participation and enhance the market's competitive dynamics.

27. (A) P-1, Q-2, R-3, S-4
During the 2020-21 period, the money market experienced significant shifts in volume and composition. The average daily volume increased by thirty-nine per cent, while the call money segment's share was only two per cent. Triparty repos dominated with a sixty-nine per cent share. Additionally, the spread of certificate of deposit rates over treasury bills narrowed to just six basis points.

28. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Historically, the effectiveness of treasury bills as money market instruments in India was severely limited. This attenuation occurred because the discount rate on ninety-one-day bills was kept static at four point six per cent for decades. Since this rate was disconnected from other market-determined short-term rates, it failed to attract investors or serve as a reliable benchmark for liquidity management.

29. (A) P-4, Q-1, R-2, S-3
Key dates in the evolution of the Indian money market include the introduction of rupee derivatives in 1999 and the conversion of commercial paper into a stand-alone product in October 2000. The Negotiated Dealing System became operational in February 2002. Later, in May 2005, the market repo facility was extended to include non-scheduled urban cooperative banks, broadening the participant base.

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30. (D) Money Market Instruments : Providing long-term structural capital to public sector undertakings
Money market instruments are specifically designed for short-term liquidity management and have maturities of up to one year. They do not provide long-term structural capital to public sector undertakings or any other entities, as that is the function of the capital market. The other descriptions provided for certificates of deposit, inter-bank participation certificates, and interest rate swaps are fundamentally correct.

31. (B) P-1, Q-2, R-3, S-4
The institutional framework of the government securities market evolved through several key initiatives. The Securities Trading Corporation of India was established in May 1994, followed by the introduction of the Delivery versus Payment system in July 1995. In October 2000, FIMMDA took over the yield curve announcement task. Finally, one-hundred-and-eighty-two-day treasury bills were reintroduced to the market in April 2005.

32. (A) I, II, III, IV
During the latter half of 2020, several central bank actions influenced government security yields. First, the Monetary Policy Committee maintained the status quo on rates in August. This was followed by a series of liquidity measures on August thirty-first. In October, the borrowing calendar remained unchanged, and subsequently, the held-to-maturity benefit for banks was extended to March 2022 to provide stability.

33. (B) Uniform price auction method
To enhance market participation and mitigate the "winner's curse," the Reserve Bank adopted the uniform price auction method for ninety-one-day treasury bills. In this method, all successful bidders pay the same price, which is the cut-off price determined by the central bank. This approach encourages more aggressive bidding and helps in developing a more transparent and competitive market for short-term debt.

periods. This achievement was facilitated by a prevailing environment of falling interest rates and comfortable systemic liquidity. Such favorable conditions allowed the government to issue longer-term securities at lower yields, thereby improving the overall sustainability of public debt management and reducing interest expenses.

51. (D) Vaghul Committee (1987)
The Rangarajan, Sodhani, and Tarapore Committees were instrumental in providing the recommendations that shaped the reform of India's foreign exchange market during the 1990s. They focused on exchange rate management and capital account convertibility. The Vaghul Committee, while influential, was primarily concerned with the development and deregulation of the domestic money market rather than the specific reforms of the foreign exchange segment.

52. (D) The Cash and Debt Management Group
To ensure the smooth completion of the government's borrowing program without disrupting financial markets, the Reserve Bank and the government established a specialized group in May 1997. The Cash and Debt Management Group was formed to coordinate between the two entities on liquidity and debt issuance strategies. This collaborative framework improved the timing and transparency of market operations, enhancing overall stability.

53. (C) Net G-sec borrowings financed 54.2 per cent of the revised gross fiscal deficit
In the 2021-22 financial year, the central government's net market borrowings through dated securities played a crucial role in fiscal management. These borrowings financed fifty-four point two per cent of the revised gross fiscal deficit. This highlights the government's reliance on market-based debt to fund its expenditure, reflecting the maturity and depth of the government securities market in absorbing large-scale financing needs.

54. (D) Section 40
The Reserve Bank of India derives its power to buy and sell foreign exchange from scheduled banks from Section forty of the Reserve Bank of India Act, 1934. This provision is central to the bank's role in managing the country's foreign exchange reserves and intervening in the market to maintain orderly conditions. It provides the legal authority necessary for implementing exchange rate policies effectively.

55. (A) Imparting liquidity strictly to corporate commercial papers while phasing out State Development Loans (SDLs)
The Medium-Term Debt Management Strategy focuses on enhancing the government securities market through measures like market making schemes and improved cash flow forecasting. It also aims to improve the design of Sovereign Gold Bonds. However, the strategy does not include imparting liquidity to corporate commercial papers, as its primary mandate is the management of sovereign debt rather than supporting short-term corporate instruments.

56. (A) The Reserve Bank, effective February 2000, ceased all purchases of Treasury Bills through OMO to restrict exclusive access to PDs.
Institutional strengthening of the government securities market involved the setup of STCI, the introduction of primary dealers in 1996, and the implementation of the Delivery versus Payment system in 1995. However, the statement that the Reserve Bank ceased all purchases of treasury bills in February 2000 to restrict access to primary dealers is incorrect, as the bank maintains flexibility in its operations.

57. (C) Both Statements I and II
In 1975, India made a significant shift in its exchange rate policy by de-linking the rupee from the Pound Sterling. A managed floating arrangement was adopted, where the rupee's external value was determined based on a weighted basket of currencies from India's major trading partners. This change allowed for greater flexibility and better alignment of the currency with the country's broader trade dynamics.

58. (A) I and II
The maturity profile of Indian government securities has undergone significant elongation, increasing from an average of five point seven years in 1996 to over fourteen years by 2005. The Reserve Bank has progressively introduced longer-tenor bonds, reaching up to forty-year issuances. Contrary to some assumptions, this

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driven by the Statutory Liquidity Ratio requirements, which mandate banks to hold a portion of their deposits in liquid assets like government bonds. Banks have often invested well beyond these statutory minimums when surplus liquidity is available, as these securities offer a safe, sovereign-backed return.

43. (B) The announcement of a special liquidity facility for mutual funds (SLF-MF) and the conduct of OMOs
In April 2020, government security yields faced upward pressure due to selling by foreign investors and redemption stress in mutual funds. To stabilize the market and soften yields, the Reserve Bank announced a special liquidity facility for mutual funds and conducted open market operations. These interventions effectively provided the necessary liquidity to the system and restored confidence among market participants during the crisis.

44. (D) 58.2 per cent
During the 2021-22 financial year, the government's market borrowing program focused significantly on longer-term debt to manage the maturity profile. Specifically, fifty-eight point two per cent of the total borrowings through dated securities were raised using instruments with a residual maturity of ten years or more. This strategy helps in elongating the debt maturity and reducing the immediate repayment burden for the government.

45. (C) Guidelines for Internal Control over Foreign Exchange Business
To address irregular practices and the growing complexity of trading in the foreign exchange market, the Reserve Bank introduced comprehensive guidelines in 1981. The document, titled Guidelines for Internal Control over Foreign Exchange Business, provided a framework for banks to manage their dealing operations. It established necessary standards for risk management, transparency, and accountability in the rapidly evolving foreign exchange environment of that period.

46. (A) I, II, and III
The 1990s marked a transformative period for the government securities market in India. Key developments included the introduction of an auction system for dated securities in 1992 and various innovative instruments like floating rate and zero-coupon bonds. Additionally, the uniform price auction method was adopted for treasury bills. However, the market did not transition exclusively to private placements, as auctions became the primary method.

47. (B) Swiss Franc
Under Section seventeen of the Reserve Bank of India Act, the central bank is authorized to purchase specific foreign currencies to manage reserves. Historically, these included major global currencies such as the Pound Sterling, the US dollar, and the Deutsche Mark. The Swiss Franc, however, was not among the currencies listed as being purchased by the Reserve Bank under this particular legislative provision.

48. (B) The mandatory requirement for all state governments to issue solely capital-indexed bonds
Several successful measures have improved the government securities market, including the introduction of the Negotiated Dealing System and the establishment of the Clearing Corporation of India. Rationalizing the types of treasury bills also enhanced market efficiency. However, there is no mandatory requirement for state governments to issue solely capital-indexed bonds, as states utilize various instruments to meet their specific borrowing requirements and preferences.

49. (A) P-1, Q-2, R-3, S-4
Foreign portfolio investment in Indian government securities is managed through different routes. The Fully Accessible Route was introduced in April 2020, while the General Route follows limits under the medium-term framework. The Voluntary Retention Route provides a combined limit for various debt types. By March 2021, the outstanding stock under the Fully Accessible Route scheme exceeded eleven lakh crore rupees across twelve securities.

50. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Reserve Bank successfully achieved the dual goals of elongating the debt maturity profile and reducing borrowing costs during recent

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34. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Until the early 1970s, the Indian foreign exchange market was largely insulated from global currency movements due to strict exchange controls. Regulations inhibited capital movements and required banks to maintain square positions, limiting their operations primarily to cover transactions. This restrictive environment prevented the development of a dynamic market, ensuring that exchange rate stability was maintained through administrative rather than market forces.

35. (D) I, II, III, IV, and V
Debt management operations during 2021-22 were characterized by several key trends. The weighted average yield of new issuances increased, while the coupon on the total debt stock decreased slightly. Both the maturity of primary issuances and the outstanding debt were elongated. Furthermore, significant partial devolvement on primary dealers occurred on multiple instances, reflecting the challenges of managing large market borrowing programs.

36. (A) The Gulf War
In July 1990, the onset of the Gulf War triggered a severe liquidity and confidence crisis for India. The resulting spike in oil prices and the loss of remittances exacerbated existing external imbalances and indebtedness. This unprecedented economic shock necessitated emergency corrective measures and eventually served as a catalyst for the comprehensive structural reforms that were implemented in the early 1990s.

37. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
During the pre-reform period, the narrowness of the market for government and semi-government securities limited the scope for using open market operations to control systemic liquidity. Instead, the central bank's interventions were primarily aimed at ensuring orderly market conditions and facilitating the government's borrowing program. The lack of a deep and liquid secondary market prevented these operations from being effective tools.

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38. (D) Holding share by March 2022 : 45.8 per cent
Historical data shows that commercial banks' share of government securities reached a peak of seventy-two per cent in 1994 before gradually declining. By 2017, the holding share had fallen to approximately forty per cent. The figure of forty-five point eight per cent for March 2022 is inaccurate based on established trends, as the actual holding levels typically reflected lower proportions of the total.

39. (D) To strictly manage the exchange rate mainly for facilitating India's imports
Prior to the 1990s, India's foreign exchange policy was characterized by a strict control regime. The primary objective was to manage the exchange rate to facilitate essential imports while conserving scarce foreign exchange reserves. Capital account convertibility was heavily restricted, and the rupee's value was determined through administrative mechanisms rather than market demand, reflecting a policy stance focused on stability over flexibility.

40. (D) Exchanging illiquid securities for a smaller number of liquid issuances
Active consolidation in the government securities market is a procedural action aimed at improving market liquidity. It involves the central bank or government buying back or exchanging various small, illiquid securities for a fewer number of larger, more liquid benchmark issuances. This process reduces the number of outstanding securities, concentrates trading in a few key bonds, and enhances overall market depth and efficiency.

41. (A) I and II
In the early 1990s, the Indian foreign exchange market suffered from a lack of depth and liquidity in both spot and forward segments. A small number of public sector banks dominated the merchant business, creating a highly skewed market structure. Furthermore, the lack of integration between the money and forex markets meant that forward rates did not accurately reflect interest rate differentials.

42. (A) Only Statement I
Commercial banks have historically been the dominant investors in the Indian government securities market. This dominance is largely

elongation was strategically implemented during periods of falling interest rates to lock in lower borrowing costs.

59. (C) Authorised Dealers, exporters, importers, individuals, and the Reserve Bank of India
The Indian foreign exchange market is composed of a diverse range of participants who engage in currency transactions. These include authorized dealers, exporters, importers, and individuals who require foreign currency for various purposes. The Reserve Bank of India also participates in the market to manage reserves and ensure stability. Together, these entities form the core structure of the market, facilitating international trade and capital flows.

60. (B) Ways and Means Advances (WMA) limits
To support state governments during the financial challenges posed by the COVID-19 pandemic, the Reserve Bank increased the Ways and Means Advances limits. This decision followed the recommendations of an Advisory Committee and provided states with greater access to short-term liquidity. This measure helped states manage their cash flow mismatches and meet essential expenditures without facing excessive borrowing costs in the market.

61. (C) Deploying funds in the call money markets or lending in foreign currencies
Authorized dealers are permitted to access loans and overdrafts from their overseas branches specifically to replenish their rupee resources for normal business operations in India. However, strict regulations prohibit the deployment of these funds in the call money market or for lending in foreign currencies. This restriction ensures that the borrowed funds are used for their intended domestic operational purposes rather than speculative activities.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In February 2018, it was proposed that Financial Benchmarks India Private Limited would take over the responsibility for the standardized valuation of government securities. This task was previously performed by the Fixed Income Money Market and Derivatives Association. Shifting this responsibility to a specialized benchmark administrator aimed to enhance the transparency, independence, and credibility of the valuation process for these critical financial instruments.

63. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
On March 2, 1993, India unified its exchange rate system, allowing all foreign exchange receipts to be converted at market-determined rates. This move marked the end of the dual exchange rate regime and was a crucial step toward achieving current account convertibility. By aligning the official and market rates, the government reduced distortions and laid the foundation for a more market-oriented foreign exchange environment.

64. (D) I, II, III, and IV
Banks must implement a comprehensive framework for the LIBOR transition, which involves reviewing all exposures and mitigating associated risks. This includes establishing infrastructure for products based on Alternative Reference Rates and sensitizing clients to the changes. A robust approach ensures that the transition is managed smoothly, minimizing contractual or valuation disruptions as legacy benchmarks are replaced by more reliable and transparent market-based alternatives.

65. (A) Reducing access to overnight LAF and increasing the Marginal Standing Facility rate
In response to the sharp depreciation of the rupee following the taper tantrum in May 2013, India implemented several tightening measures. The Reserve Bank reduced access to the overnight Liquidity Adjustment Facility and significantly increased the Marginal Standing Facility rate. These actions aimed to tighten domestic liquidity and increase the cost of shorting the rupee, thereby stabilizing the currency against excessive market volatility.

66. (D) I, II, III, IV, and V
The government securities market faces structural issues, including a large number of illiquid securities and a skewed holding pattern among banks. Addressing these requires active consolidation through buybacks and managing the impact on bank balance sheets. Since the late 1990s, policies have shifted toward

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consolidating debt to enhance liquidity, though the concentration of holdings in the held-to-maturity category remains a challenge.

67. (D) I, II, III, and IV
The Liberalized Exchange Rate Management System, introduced in 1992, was a dual exchange rate regime. It required all foreign exchange receipts to be surrendered to authorized dealers. Under this system, sixty per cent of the proceeds were converted at market rates, while the remaining forty per cent were converted at the official rate. This transitional arrangement aimed to move the economy toward market-determined exchange rates.

68. (C) Both Statements I and II
The manipulation of LIBOR in 2012 highlighted serious flaws in the governance of global financial benchmarks, prompting a call for reform. In response, the International Organization of Securities Commissions issued Principles on Financial Benchmarks to provide a framework for more robust and transparent administration. These principles emphasize the need for integrity, accuracy, and accountability in the determination of benchmarks used across financial markets.

69. (A) I and II
Banks are strongly urged to incorporate robust fallback clauses in all financial contracts that reference LIBOR and extend beyond its cessation date. These clauses provide a clear mechanism for switching to Alternative Reference Rates if the benchmark becomes unavailable. Various international agencies have developed standard clauses to ensure consistency and reduce legal and operational risks for market participants during the transition period.

70. (B) December 01, 2009
To mitigate the risks associated with large outstanding forward positions, the Clearing Corporation of India began offering guaranteed settlement for US dollar-rupee forward transactions. This service, which started on December 1, 2009, covers trades from the date they are executed. By acting as a central counterparty, the corporation reduces credit and settlement risks, thereby enhancing the overall stability of the foreign exchange market.

71. (A) Forward rates reflecting supply-demand dynamics due to lack of market integration
During the early 1990s, forward exchange rates in India often deviated from interest rate parity. This occurred primarily because the money and foreign exchange markets were not well integrated, and exchange controls limited arbitrage. Consequently, forward rates were driven more by the immediate supply and demand for foreign currency rather than by the underlying interest rate differentials between the domestic and foreign economies.

72. (B) Based on the quotations of a few select banks in Mumbai at twelve noon every day
Since October 1995, the Reserve Bank has announced a daily Reference Rate instead of quoting its own buying and selling rates. This rate is determined based on the quotations provided by a select group of banks in Mumbai at twelve noon each day. This process reflects a more market-oriented approach, providing a transparent benchmark for various transactions and valuation purposes in the foreign exchange market.

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73. (D) Financial Benchmarks India Pvt. Ltd. (FBIL)
Financial Benchmarks India Private Limited is currently the primary institution responsible for publishing various financial benchmarks, including the overnight MIBOR and the Market Repo Overnight Rate. It also manages forex benchmarks like the FC-Rupee Options Volatility Index. By ensuring these benchmarks meet high standards of precision and integrity, the organization supports the efficient functioning and transparency of the Indian financial markets.

74. (C) CPI inflation of 5.1 per cent in January 2015 and a reduced fiscal deficit target
The stability of the Indian rupee during 2014-15 was supported by significant improvements in key macroeconomic indicators. A notable decline in CPI inflation, which reached five point one per cent in early 2015, combined with a reduced fiscal deficit target, bolstered investor confidence. These positive developments helped the rupee remain more stable than many other major currencies during a period of global uncertainty.

75. (B) Aggregate principal amount invested : ₹7,126 crore
Under the special liquidity scheme for non-banking financial companies and housing finance companies, the aggregate principal amount invested by the Reserve Bank was seven thousand one hundred and twenty-six crore rupees by the time the scheme concluded in late 2020. This targeted intervention was designed to provide essential funding support during a period of heightened market stress, ensuring that these critical financial entities maintained adequate liquidity.

76. (D) Select non-resident accounts allowed full market conversion, unlike standard current transfers.
The Liberalized Exchange Rate Management System created distortions, such as the diversion of remittances to certain capital account channels. This happened because select non-resident accounts were allowed to convert foreign exchange at full market rates, whereas standard current transfers were subject to the dual rate system. This discrepancy incentivized individuals to route their funds through these specific accounts to maximize the value of their remittances.

77. (D) Engaging in aggressive proprietary directional trading to capture inter-bank arbitrage
Following the cessation of LIBOR, banks are permitted to trade in MIFOR only for specific risk management and client-support purposes. Permitted activities include hedging, participating in central counterparty procedures, and market-making for clients. However, engaging in aggressive proprietary directional trading to capture inter-bank arbitrage is strictly prohibited. This restriction ensures that MIFOR use is confined to legitimate risk mitigation rather than speculative profit-seeking.

78. (D) Applying the same credit decision principles for complex derivatives as for non-derivatives
The appropriateness standard requires banks to ensure that complex derivative transactions are suitable for their customers. This involves applying the same rigorous credit decision principles to derivatives as they would for traditional lending or non-derivative products. By mandating this standard, regulators aim to protect participants from entering into financial contracts they do not fully understand or cannot manage from a risk perspective.

79. (B) All remaining US dollar settings ceased immediately after December 31, 2021.
While many LIBOR settings for various currencies ceased after December 2021, the statement that all US dollar settings ceased then is incorrect. The Financial Conduct Authority allowed certain US dollar settings to continue being published until June 2023. This extension was specifically intended to facilitate the orderly wind-down of legacy contracts that still relied on the benchmark, preventing a sudden disruption in global financial markets.

80. (B) US$ 532.838 Billion
On October 7, 2022, India's total foreign exchange reserves stood at approximately five hundred and thirty-two point eight billion US dollars. These reserves serve as a critical buffer against external economic shocks and help maintain the stability of the domestic currency. The management of such a significant pool of assets is a core responsibility of the central bank to ensure overall financial resilience.

81. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
There is a critical need for greater transparency and clarity in derivative accounting for both banks and corporates in India. Since these accounting standards are still evolving, it is essential to disclose the nature and quantum of risks associated with these contracts. Improved reporting ensures that financial statements accurately reflect the potential impact of derivative exposures on revenue recognition and overall valuation.

82. (D) I, II, III, IV, and V
The Reserve Bank has implemented several initiatives to broaden the foreign exchange market, including granting banks freedom to fix position limits and interest rates on FCNR(B) deposits. Authorized dealers were also allowed increased borrowing limits from abroad. Furthermore, corporates gained more flexibility in managing their exposures, and the entitlements for Exchange Earners' Foreign

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loans.
(C) To provide administrative oversight for banks that lack internal audit machinery.
(D) To address the unique fiduciary responsibility of accepting public money for safety.

May/June 2010

24. Which of the following statements concerning the evolution of the State Bank of India is incorrect?
(A) In 1921, the three Presidency banks and their branches were merged to form the Imperial Bank of India.
(B) The State Bank of India (Subsidiary Banks) Act was passed in 1959.
(C) The State Bank of Saurashtra merged with SBI on 13 August 2008.
(D) The All India Rural Credit Survey Committee recommended privatizing the Imperial Bank of India to form a purely commercial entity.

Oct/Nov 2024

25. Which of the following statements accurately reflects the banking regulatory framework in the United States prior to 1863?
(A) The Federal Reserve Board held tight control over the investment practices of all banks.
(B) Only State Governments had the power to regulate banks, consisting merely in issuing bank charters.
(C) The Office of the Comptroller of the Currency issued mandatory federal licenses to all private banks.
(D) The Federal Government required all newly chartered banks to buy federal debt.

May/June 2017

26. What was the primary objective of the East India Company when it established the Bank of Bombay in 1720?
(A) To introduce the joint stock system for raising capital
(B) To function as a holding institute for government reserves
(C) To issue federal debt and manage currency circulation
(D) To increase trade and thereby the revenue of the Company

Oct/Nov 2005

27. The standard checklist of dynamic parameters of business focused on by supervisors, abbreviated as 'CAMEL', includes all of the following EXCEPT:
(A) Market share
(B) Capital adequacy
(C) Management quality
(D) Earnings profitability

May/June 2020

28. Following the collapse of the Home Bank, in what year did the Canadian Government establish the Office of the Inspector General of Banks?
(A) 1864
(B) 1913
(C) 1925
(D) 1934

NODIA

Oct/Nov 2015

29. Which of the following statements regarding the differing roles of a bank auditor and a bank supervisor is incorrect?
(A) For the auditor, the primary responsibility is to the shareholders.
(B) The supervisor has to form an independent judgment of a bank's condition to protect depositors.
(C) For the supervisor, the primary responsibility is to the shareholders of the banking institution.
(D) The auditor is concerned primarily with establishing the truth of facts presented by management.

May/June 2013

30. What constitutes the "moral hazard" risk when a central bank also acts as the banking supervisor?
(A) The central bank may assign separate instruments to two policy branches, creating friction.
(B) The central bank might transfer its regulatory responsibilities to a cross-sectoral body.
(C) The central bank could enforce strict charter terms, leading to involuntary liquidation.
(D) The central bank could relax monetary policy to support weak banks, encouraging risk-taking.

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21 period. After an initial period of softening in late 2020 due to surplus liquidity, the rates began to inch upward. By the end of March 2021, the weighted average discount rate for these primary market instruments had reached approximately four point seven per cent, reflecting changing market conditions.

92. (C) Following a gradual, well-calibrated approach that gathered momentum in the early 1990s
India's approach to financial market reforms since the mid-1980s has been characterized by a gradual and well-calibrated strategy. Rather than a "big bang" liberalization, the government and central bank implemented changes progressively, gathering significant momentum in the early 1990s. This cautious method allowed for the development of necessary institutional frameworks and regulatory oversight, ensuring that market stability was maintained throughout the process.

93. (A) P-1, Q-2, R-3, S-4
Major steps in the reform of India's foreign exchange market followed a logical timeline. The Rangarajan Committee reported in 1992, followed by the Sodhani Committee in 1995 and the Tarapore Committee in 1997. These efforts culminated in the passage of the Foreign Exchange Management Act in 1999, which replaced the more restrictive FERA and modernized the legal framework for currency and capital transactions.

94. (B) Twelve securities with an outstanding stock of ₹11,79,423 crore
The Fully Accessible Route, launched in April 2020, significantly expanded the opportunities for foreign investment in government bonds. By March 31, 2021, the scheme included twelve different securities with a total outstanding stock exceeding eleven lakh seventy-nine thousand crore rupees. This initiative has been instrumental in broadening the investor base and integrating the Indian government securities market with global financial systems.

95. (D) I, II, III, IV, and V
The money market is a vital component of the financial system, providing a platform for equilibrating short-term funds with maturities up to one year. It serves as the primary focal point for central bank interventions, facilitating the conduct of monetary policy. By providing users with efficient access to borrowing at market-clearing prices, it ensures liquidity and supports the overall stability of the broader economy.

96. (B) Addressing temporary supply-demand imbalances to prevent volatility without a fixed target
Under the current floating exchange rate regime, the Reserve Bank does not target a specific level for the rupee. Instead, its intervention policy focuses on addressing temporary supply and demand imbalances to prevent excessive volatility. This approach ensures that the exchange rate reflects market fundamentals while protecting the economy from sudden, disruptive movements that could undermine financial stability and investor confidence.

97. (C) 72 per cent
Historical trends in the government securities market show that commercial banks once held a very large proportion of the total outstanding debt. This holding share reached its historical peak at seventy-two per cent by the end of March 1994. The high concentration was largely due to statutory requirements and limited investment alternatives for banks during that specific phase of financial market development.

98. (B) Restricting call money market flexibility to banks while excluding Primary Dealers
Promoting an orderly money market involves setting prudential limits on borrowing and lending and improving risk management through asset-liability frameworks. Exploring standardized benchmarks is also a key goal. However, the suggestion that the market should restrict flexibility solely to banks while excluding primary dealers is incorrect, as primary dealers are essential participants who provide necessary liquidity and support for market-making activities.

99. (D) The capital market falls within the purview of the Securities and Exchange Board of India (SEBI).
In the Indian financial regulatory landscape, the Securities and Exchange Board of India is correctly mapped to the capital market. The Reserve Bank of India oversees the money, government securities, and foreign exchange

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(D) The expansion across national frontiers

May/June 2012

8. Which of the following statements correctly describes the operational framework of the Bank of England under the Banking Act of 1979?
(A) The day-to-day fulfillment of the role strictly required recourse to legal provisions.
(B) The supervisory principles were applied flexibly to match specific features of institutions.
(C) The Bank was prohibited from extending horizons to cover banking operations across regions.
(D) The Bank's authority over deposit-taking was entirely revoked and transferred to the EEC.

Oct/Nov 2014

9. Which of the following statements regarding the banking history of the United States is incorrect?
(A) In 1863, the Federal Government began to take an active interest in bank regulation.
(B) From 1836 until 1914, the United States maintained a robust and centralized national bank.
(C) The National Bank Act of 1864 stipulated that newly chartered banks had to buy federal debt.
(D) The Emergency Banking Relief Act of 1933 provided for the reopening of banks once examiners found them financially secure.

May/June 2019

10. In which month and year was the Department of Banking Operations of the Reserve Bank of India originally organized?
(A) April 1945
(B) August 1945
(C) April 1946
(D) February 1949

Oct/Nov 2006

11. With effect from April 1, 2017, several associate banks and entities merged with the State Bank of India. All of the following were part of this specific 2017 merger EXCEPT:
(A) State Bank of Bikaner and Jaipur (SBBJ)
(B) State Bank of Mysore (SBM)
(C) Bhartiya Mahila Bank (BMB)
(D) State Bank of Indore

May/June 2021

12. How were early private banks in India, such as the Union Bank (formed by the merger of the Calcutta Bank and the Commercial Bank), legally defined?
(A) Statutory bodies with unlimited liability
(B) Joint stock companies under the Royal Charter
(C) Partnership firms with unlimited liability
(D) Federal agencies authorized by the government

Oct/Nov 2010

13. Which statement correctly identifies a major innovation in banking method and organisation introduced by the establishment of the Bank of Bengal?
(A) The use of the joint stock system for raising capital.
(B) The provision of unconditional unlimited liability to all public depositors.
(C) The complete removal of explicitly defined limits on credit.
(D) The abolition of the paper currency issuance function.

May/June 2005

14. How does the integration of the supervisory function with the central bank enhance the assessment of the macroeconomic situation?
(A) By ensuring that central bank attention is entirely diverted from monetary policy.
(B) By restricting data collection to macro-prudential policies while eliminating oversight.
(C) By providing additional supervisory data that enhances the granularity of information.
(D) By allowing the central bank to independently raise capital through the joint stock.

Oct/Nov 2022

15. A number of countries developed their central banks and bank regulators completely separately. All of the following are examples of such countries EXCEPT:
(A) Chile
(B) Mexico
(C) Peru
(D) United States

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CHAPTER 13
Evolution of Regulation and Supervision

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Oct/Nov 2023

1. In what year did the U.K. pass the Banking Act that invested the Bank of England for the first time with a statutory responsibility for the supervision of deposit-taking institutions?
(A) 1866
(B) 1933
(C) 1976
(D) 1979

May/June 2016

2. Which statement accurately describes the recommendations of the Indian Central Banking Enquiry Committee (1929-31)?
(A) It recommended that the right to issue currency notes be completely privatized.
(B) It suggested that commercial banks should be governed exclusively by the Companies Act without any specialized banking law.
(C) It emphasized the need for enacting a special Bank Act covering the organization, management, audit, and liquidation of banks.
(D) It proposed the immediate nationalisation of all non-scheduled banks in West Bengal.

Oct/Nov 2009

3. In the standard supervisory checklist abbreviated as 'CAMEL', which specific element corresponds to the evaluation of the loan portfolio and credit risk, where most banking losses arise?
(A) Capital adequacy
(B) Management quality
(C) Asset quality
(D) Earnings profitability

May/June 2023

4. Which of the following statements incorrectly represents the views of prominent central bankers on the separation of monetary and supervisory functions?
(A) The former Governor of the Bank of England stated that monetary and financial stability are interrelated.
(B) Alan Greenspan stated that financial modernization should not undermine the authority of the central bank to manage crises.
(C) Charles Goodhart argued that banking supervisors and central banks must operate in complete isolation regardless of their physical location.
(D) Ben Bernanke opined that the improvement of bank regulation and supervision is essential for promoting stable monetary policy.

Oct/Nov 2018

5. Why are central banks typically made key players in crisis management even when they are not explicitly tasked with financial supervision?
(A) Their authority to issue bank charters enables the reconstruction of failing banks.
(B) Their role as lender of last resort managing interbank liquidity makes them key players.
(C) Their dependence on external auditing prevents the downward spiral of fund withdrawals.
(D) Their power to limit credit grants them statutory authority over all private securities.

May/June 2007

6. During the eighteenth and nineteenth centuries, several banks were established in India as private institutions or under government patronage. All of the following banks were established during this period EXCEPT:
(A) Carnatic Bank
(B) Home Bank
(C) British Bank
(D) Bank of Hindustan

Oct/Nov 2025

7. Which specific activity did several countries view as the trigger for introducing statutory control over banking institutions?
(A) The issuing of currency notes
(B) The act of deposit taking
(C) The sanctioning of unsecured advances

Oct/Nov 2013

37. What is the most appropriate rationale for preserving a financial stability function within a central bank, even when regulation is conducted by a separate institution?

(A) Monetary and financial stability policies are inherently intertwined.

(B) It guarantees unlimited liability for cross-border banking operations.

(C) It ensures that private banks can issue their own currency notes.

(D) It removes the necessity for periodic inspections of commercial banks.

May/June 2015

38. Match the Reserve Bank of India's risk weight adjustments in List I with the corresponding loan categories and timelines in List II.

List I: (Risk Weight Context)

P. Housing loans risk weight prior to Dec 2004

Q. Housing loans risk weight post Dec 2004

R. Consumer credit risk weight prior to July 2005

S. Consumer credit risk weight post July 2005

List II: (Percentage)

1. 100 per cent
2. 50 per cent
3. 75 per cent
4. 125 per cent

(A) P-2, Q-3, R-1, S-4

(B) P-1, Q-4, R-2, S-3

(C) P-3, Q-1, R-4, S-2

(D) P-4, Q-2, R-3, S-1

Oct/Nov 2012

39. Consider the following statements regarding the duties of a bank auditor and a supervisor:

I. The auditor's primary responsibility is to the bank's depositors, while the supervisor's primary responsibility is to the shareholders.

II. The supervisor's concern extends to the implication of facts and judgments for the future viability of the business.

Which of the statements is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

May/June 2011

40. Match the banking legislation in the U.S. in List I with its key provision or outcome in List II.

List I: (Banking Legislation)

P. National Bank Act of 1864

Q. Federal Reserve Act of 1913

R. Emergency Banking Relief Act of 1933

S. Banking Act of 1933

List II: (Provision/Outcome)

1. Power to license banks via Comptroller of Currency
2. Reopening of banks once found financially secure
3. Tighter control of investment practices & setup of FDIC
4. Created holding institute for reserves & money-creator of last resort

(A) P-2, Q-3, R-1, S-4

(B) P-1, Q-4, R-2, S-3

(C) P-3, Q-1, R-4, S-2

(D) P-4, Q-2, R-3, S-1

Oct/Nov 2020

41. Consider the following statements regarding banking regulation globally:

I. In the late 1990s, there was a trend for financial supervision to be placed inside central banks exclusively.

II. Prior to the 1970s, there was no formal system of banking regulation in the U.K., except the provisions of the Companies Act.

III. The Bank of Canada was created nine years after the Canadian Government established the Office of the Inspector General of Banks.

Which combination of statements is correct?

(A) Only I and II

(B) Only II and III

(C) Only I and III

(D) I, II, and III

May/June 2022

42. What is the most appropriate reason given for the failure of banks in West Bengal during the Indian banking crisis of 1913?

(A) The passage of the Paper Currency Act which removed their historical note-issuing authority.

(B) The sudden imposition of explicit and restrictive limits on credit by the central government.

(C) The maintenance of low cash reserves combined with granting large unsecured advances to directors.

(D) The compulsory merger of the Calcutta Bank and the Commercial Bank into the

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May/June 2018

16. What defines the primary responsibility of a bank auditor in relation to a bank's financial condition?
(A) To report on the directors' account information for the bank's shareholders
(B) To implement necessary regulatory actions to protect all depositors' interests
(C) To provide a comprehensive assessment of the banking system's macroeconomy
(D) To evaluate the business viability by analyzing data beyond established facts

Oct/Nov 2016

17. Which of the following statements regarding the early indigenous and commercial banking system in India is incorrect?
(A) The Bank of Calcutta was established in 1806 as a partnership firm with unlimited liability.
(B) Indigenous systems of banking existed in India for centuries, meeting the requirements of an ancient economy.
(C) The General Bank of Bengal and Bihar was a private establishment floated in 1773.
(D) With the passing of the Paper Currency Act, 1861, the right to issue currency notes by the Presidency banks was abolished.

May/June 2014

18. Under the Banking Act of 1933 in the United States, up to what amount did the newly established Federal Deposit Insurance Corporation (FDIC) originally insure all bank deposits?
(A) US $ 1,000
(B) US $ 5,000
(C) US $ 10,000
(D) US $ 50,000

Oct/Nov 2007

19. Which statement correctly outlines the governance structure proposed by the European Commission to resolve conflicts of interest in central banking?
(A) It called for a unified structure combining monetary and supervisory decision-making into a single body.
(B) It proposed the assignment of shared instruments and identical objectives to both policy branches.
(C) It recommended the complete abolition of the lender-of-last-resort function.
(D) It called for a governance structure that strictly separates the monetary functions from the supervisory functions.

May/June 2025

20. How can a sharp increase in interest rates driven by inflationary pressures create a prudential concern for a central bank?
(A) It could cause the value of loan-underpinning assets to fall below total loan amounts.
(B) It may prompt the central bank to completely abandon its price stability mandate.
(C) It forces the government to abolish the right of the central bank to issue currency notes.
(D) It automatically triggers the integration of all state-associated banks into a single entity.

Oct/Nov 2019

21. The establishment of the Bank of Bengal brought about major innovations in banking methods and organisation. These included all of the following EXCEPT:
(A) Use of the joint stock system for raising capital
(B) Conferring of limited liability on shareholders by means of a charter
(C) Unrestricted provision for the acceptance of all private securities without explicit limits
(D) Provision for the note issue which could be accepted for public revenue payments

May/June 2009

22. Which agency in the U.K. was assigned the regulatory and supervisory role before it was brought back within the ambit of the Bank of England?
(A) Office of the Inspector General of Banks
(B) Financial Services Authority
(C) Office of the Comptroller of the Currency
(D) European Commission Regulatory Body

Oct/Nov 2011

23. Why does the conduct of supervision single out banks as a special category of institution requiring statutory oversight?
(A) To address the inherent lack of confidence bankers display in managing affairs.
(B) To ensure that banks fulfill legal requirements to fund government war

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markets, while the insurance sector is regulated by the IRDA. This clear division of responsibilities ensures that each market segment receives specialized oversight, promoting overall stability and investor protection.

100. (D) Exhibiting stability and resilience through interventions by the Government and Reserve Bank

During major global shocks such as the pandemic and geopolitical conflicts, Indian financial markets have demonstrated remarkable stability and resilience. This performance was largely supported by proactive interventions from both the government and the Reserve Bank. These measures, including liquidity support and regulatory adjustments, helped the domestic markets withstand external pressures and maintain their functional integrity while many other global segments experienced significant distress.

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Oct/Nov 2021

31. Arrange the establishment of the following early banks in India in the correct chronological order:
I. General Bank of India
II. Bank of Bombay (set up by East India Company)
III. Madras Bank (private institution)
IV. General Bank of Bengal and Bihar
(A) II, IV, I, III
(B) IV, I, II, III
(C) II, I, IV, III
(D) I, IV, II, III

May/June 2024

32. Which of the following pairs of countries and their respective central banking/regulatory developments is incorrectly matched?
(A) United Kingdom - Transferred regulatory responsibilities to FSA and subsequently reversed it
(B) United States - Maintained a continuous and uninterrupted central banking system from 1836 to 1914
(C) Canada - Established the Office of the Inspector General of Banks in 1925
(D) Australia - Modified the institutional mandates of their central banks by transferring regulatory responsibilities

Oct/Nov 2008

33. What is the most appropriate characterization of the relationship between monetary policy and banking soundness?
(A) They are mutually exclusive domains that must be separated to prevent inflationary bias.
(B) The relationship is complementary, with the banking system acting as the primary vehicle.
(C) Monetary policy solely dictates banking soundness without requiring any feedback loop data.
(D) Banking soundness is a micro-prudential concern that has no bearing on macro stability.

May/June 2006

34. Consider the following statements regarding the evolution of commercial banking in India:
I. The business of the Presidency banks was initially confined to discounting of bills, keeping cash accounts, receiving deposits, and issuing cash notes.
II. With the passing of the Paper Currency Act, 1861, the right to issue currency notes by the Presidency banks was expanded significantly.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

NODIA

Oct/Nov 2017

35. Match the entities associated with the State Bank of India in List I with the timeline of their integration in List II.
List I: (Banking Entity)
P. State Bank of Saurashtra
Q. State Bank of Indore
R. Imperial Bank of India
S. Five associate banks and BMB
List II: (Timeline)
1. Merged from Presidency banks in 1921
2. Merged with SBI on 13 August 2008
3. Absorption approved on 19 June 2009
4. Merged with SBI with effect from April 1, 2017
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2008

36. Consider the following statements regarding early banking legislation in India:
I. Company law was introduced in India with the Companies Act 43 of 1850, based on the English Companies Act, 1844.
II. Under the Act of 1857, the privilege of limited liability was extended to companies formed for the purpose of banking and insurance.
III. The disability regarding limited liability for banking companies was removed by the Act of 1860.
Which combination of statements is correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

Currency accounts were rationalized to improve the efficiency of market participation.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Since the implementation of reforms, the Indian foreign exchange market has seen significant growth in both liquidity and depth. This progress is evidenced by the massive increase in average daily turnover, which rose from sixteen billion dollars in 2005-06 to nearly fifty-five billion dollars by 2014-15. This expansion reflects the increased integration of the Indian economy with global trade and financial systems.

84. (C) Modified MIFOR rates
With the transition away from LIBOR, the traditional Mumbai Interbank Forward Outright Rate had to be replaced for new contracts. Starting from June 30, 2021, market participants were expected to use the Modified MIFOR rates published by Financial Benchmarks India Private Limited. This updated benchmark ensures that fresh contracts are based on more robust and representative reference rates that align with international standards.

85. (A) P-1, Q-2, R-3, S-4
The governance of financial benchmarks in India involves several key entities and timelines. The Vijay Bhaskar Committee was set up in 2013 to recommend improvements. FIMMDA and FEDAI historically served as administrators for interest rate and forex benchmarks, respectively. Ultimately, Financial Benchmarks India Private Limited was formed in December 2014 to centralize and standardize the administration of these critical market indicators.

86. (P-3, Q-2, R-4, S-1)
Significant milestones in the Indian forex market include the US dollar replacing the Pound Sterling as the intervention currency in 1993. The central bank stopped quoting its own rates in October 1995. Additionally, the routing of certain government debt service payments through the market began in 1995, and the Euro was added as an intervention currency later, specifically in March 2002.

87. (A) P-3, Q-1, R-2, S-4
The generic ten-year government security yield experienced varying movements throughout the quarters of 2020-21. Yields softened by twenty-five basis points in the first quarter, followed by a thirteen basis point hardening in the second. The third quarter saw a fifteen basis point decline, while the final quarter of the year ended with a significant thirty basis point hardening in these yields.

88. (B) Defining a pecking order of capital flows and providing a rules-based framework
To manage the risks associated with volatile capital flows, the Reserve Bank follows a strategic approach that defines a specific pecking order. This rules-based framework prioritizes more stable forms of capital, such as foreign direct investment, over more volatile flows. This method allows the central bank to maintain stability and protect the financial system from the pro-cyclical nature of uncertain international capital movements.

89. (B) To facilitate legacy contract roll-off without encouraging continued LIBOR reliance
The decision to extend the publication of certain US dollar LIBOR settings until June 2023 was specifically designed to help the financial industry manage legacy contracts. This timeline extension provides banks and corporates more time to roll off or renegotiate existing agreements without causing market disruption. However, it is not intended to encourage continued reliance on the benchmark for any new financial transactions.

90. (A) Maintaining larger reserves as a crisis buffer outweighs associated quasi-fiscal costs
Following the 2008 global financial crisis, there has been a shift in the debate regarding the necessity of large foreign exchange reserves for emerging economies. The current view is that maintaining substantial reserves as a buffer against external crises provides stability that outweighs the associated quasi-fiscal costs. These reserves act as a critical insurance policy, protecting the domestic economy from sudden capital outflows.

91. (C) 4.7 per cent
In the commercial paper market, discount rates showed significant fluctuations during the 2020-

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single Union Bank.

Oct/Nov 2023

43. Which of the following pairs of central bank supervisory focus areas and their respective descriptions is correctly matched?
(A) CAMEL missing item - Earnings profitability
(B) Non-standard monetary policy - Facilitated by thorough understanding of banks' behaviour
(C) Fiduciary responsibility - Trigger for deposit taking statutory control
(D) Micro-prudential policy - Focuses exclusively on price stability mandate

May/June 2016

44. Match the prominent figures in List I with their perspectives on central banking in List II.
List I: (Figure)
P. Alan Greenspan
Q. Ben Bernanke
R. Charles Goodhart
S. Stefan Gerlach
List II: (Perspective)
1. Financial modernization should not undermine the authority to manage crises.
2. Supervisors and those concerned with systemic stability must work closely together.
3. Adding supervision to monetary policy could occasionally generate an inflationary bias.
4. Improvement of bank regulation is essential for promoting stable monetary policy.
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2009

45. Consider the following statements regarding the crisis of 1930s in America:
I. Private banks found that the Wall Street Crash had severely eroded their funds invested in stocks and shares.
II. The Emergency Banking Relief Act provided for the reopening of banks as soon as examiners found them financially secure.
III. The Federal Deposit Insurance Corporation was established to insure all deposits in banks up to US $ 50,000.
Which combination of statements is correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2023

46. What is the most appropriate reason for a central bank to prescribe risk weights and regulate high credit growth in sectors like housing and retail finance?
(A) To eliminate the lender-of-last-resort facility for commercial banks.
(B) To ensure credit quality in view of non-linearities in asset price changes.
(C) To strictly separate the monetary functions from the supervisory functions.
(D) To transfer regulatory responsibilities to a specialized cross-sectoral authority.

Oct/Nov 2018

47. Consider the following statements regarding monetary policy and prudential goals:
I. A conflict can arise if inflationary pressures require interest rates to be raised sharply, potentially causing the value of assets underpinning bank loans to fall below the loan amounts.
II. Research confirms that it is advisable for monetary policy to focus on financial stability and prudential policy on price stability.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2007

48. Match the historic banking events in the U.K. in List I with their corresponding years in List II.
List I: (Historic Banking Event)
P. Collapse of bill brokers Overend Gurney and Company
Q. Collapse of the City of Glasgow Bank
R. Rescue operation for Baring Brothers
S. Banking Act increasing formal role of BoE
List II: (Year)
1. 1890
2. 1866
3. 1878
4. 1979
(A) P-2, Q-3, R-1, S-4

NODIA

(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2025

49. Which of the following pairs of U.S. banking events and their respective years is incorrectly matched?
(A) Closure of the Bank of the United States - 1933
(B) Federal Reserve Act - 1913
(C) Emergency Banking Relief Act - 1933
(D) National Bank Act - 1864

May/June 2012

50. Match the central banking concepts in List I with their theoretical implications in List II.
List I: (Concept)
P. Moral Hazard
Q. Fiduciary Responsibility
R. Financial Accelerator
S. Systemic Stability
List II: (Implication)
1. The basic motive behind creating appropriate regulatory structures.
2. Assumed by bankers when accepting money for safe keeping.
3. Driven by non-linearities in asset price changes impacting consumption.
4. Continuing lending to weak banks for fear that winding them up triggers losses.
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2014

51. Consider the following statements regarding the Reserve Bank of India's role:
I. The Reserve Bank's supervisory activities have benefited from its price stability objective.
II. The Reserve Bank lacks the insight and authority to use techniques that are precisely calibrated to manage financial crises.
III. The dynamic financial system is vulnerable to episodes of stress, necessitating the Reserve Bank's ability to respond expeditiously.
Which combination of statements is correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2019

52. Arrange the following banking crises and interventions in the United Kingdom in the correct chronological order:
I. Collapse of the City of Glasgow Bank
II. Rescue operation for Baring Brothers
III. Collapse of bill brokers Overend Gurney and Company
IV. Secondary banking crisis leading to the Banking Act of 1979
(A) I, III, II, IV
(B) III, I, II, IV
(C) II, I, III, IV
(D) III, II, I, IV

Oct/Nov 2006

53. Match the Indian Presidency Banks and Acts in List I with their corresponding establishing Acts or outcomes in List II.
List I: (Presidency Bank / Act)
P. Bank of Bengal brought under Royal Charter
Q. Bank of Bombay established by Act III
R. Bank of Madras established by Act IX
S. Paper Currency Act passed abolishing note issue by Presidency banks
List II: (Outcome / Year)
1. 1861
2. 1840
3. 1843
4. 1809
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2021

54. Consider the following statements regarding the U.S. Federal Reserve System:
I. From 1836 until 1914, the United States did not have a central bank.
II. The Federal Reserve System was created primarily as a money-creator of last resort to prevent the downward spiral of withdrawal of funds.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

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Oct/Nov 2010

55. Which of the following pairs of early Indian banking entities and their historical milestones is correctly matched?

(A) Government Bank in Madras - Started functioning in 1806 empowered to issue notes

(B) Union Bank - Floated primarily by agency houses as a statutory body

(C) General Bank of India - Established in 1775 under the patronage of the East India Company

(D) New Bank of Bombay - Established in 1921 along with other Presidency banks

May/June 2005

56. What is the most appropriate description of the Bank of England's response to the banking crisis of 1890 involving Baring Brothers?

(A) It organized a rescue operation in the form of a guarantee fund supported by joint-stock banks.

(B) It abandoned the gold standard to flood the interbank market with liquidity.

(C) It enacted the Banking Act of 1890 to assume statutory responsibility for all deposit-taking institutions.

(D) It liquidated the failing banks immediately without any intervention to preserve systemic stability.

Oct/Nov 2022

57. Consider the following statements regarding the evolution of the State Bank of India:

I. In 1921, the three Presidency banks and their branches were merged to form the Imperial Bank of India.

II. The All India Rural Credit Survey Committee recommended the creation of a State-partnered bank by taking over the Imperial Bank of India.

III. The State Bank of India (Subsidiary Banks) Act was passed in 1955 enabling the takeover of former State-associated banks.

Which combination of statements is correct?

(A) Only I and II

(B) Only II and III

(C) Only I and III

(D) I, II, and III

May/June 2018

58. Match the early Indian banks in List I with their respective years of establishment in List II.

List I: (Early Indian Bank)

P. Carnatic Bank

Q. Madras Bank

R. Asiatic Bank

S. Commercial Bank

List II: (Year)

1. 1795
2. 1819
3. 1788
4. 1804

(A) P-2, Q-3, R-1, S-4

(B) P-1, Q-4, R-2, S-3

(C) P-3, Q-1, R-4, S-2

(D) P-4, Q-2, R-3, S-1

Oct/Nov 2016

59. Consider the following statements regarding the Banking Act of 1979 in the U.K.:

I. It invested the Bank of England for the first time with a statutory responsibility for the supervision of deposit-taking institutions.

II. The day-to-day fulfilment of the Bank's supervisory role strictly required recourse to detailed legal provisions.

Which of the statements is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

May/June 2014

60. Match the Indian company and banking laws in List I with their specific provisions in List II.

List I: (Legislation)

P. Companies Act 43 of 1850

Q. Act of 1860

R. Companies Act, 1913

S. Banking Regulation Act, 1949

List II: (Provision)

1. Removed the disability regarding limited liability for banking companies.
2. Comprehensively deals with aspects ranging from setting up to amalgamation.
3. Based on the English Companies Act, 1844.
4. Re-enacted the law relating to companies in a comprehensive form.

(A) P-2, Q-3, R-1, S-4

(B) P-1, Q-4, R-2, S-3

(C) P-3, Q-1, R-4, S-2

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trigger for statutory control.
Reason (R): Bankers assume a unique fiduciary responsibility when they accept other people's money for safe keeping.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

84. If property developers reduce their investment due to a fall in asset prices driven by a central bank's actions, this non-linear impact is best described as:
(A) The moral hazard dilemma.
(B) The fiduciary responsibility effect.
(C) A financial accelerator effect.
(D) The secondary banking crisis effect.

Oct/Nov 2023

85. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): The privilege of limited liability was strictly granted to banking and insurance companies under the Companies Act 43 of 1850 in India.
Reason (R): The disability preventing banking companies from having limited liability was eventually removed by the Act of 1860.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

86. Consider the following statements regarding the Bank of Bengal and the Presidency Banks:
I. The Bank of Calcutta was established in 1806 as a joint stock bank with limited liability.
II. It was renamed as Bank of Bengal in 1809 after being brought under the Royal Charter.
III. The major innovations included conferring limited liability on shareholders by means of a charter.
IV. The East India Company relinquished its right to regulate the monetary and credit system to the Presidency Banks.
Which combination of statements is correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2009

87. A commission appointed to investigate bank failures involving high unsecured advances and low liquid assets is analogous to which historical committee in India?
(A) The All India Rural Credit Survey Committee.
(B) The Indian Central Banking Enquiry Committee (1929-31).
(C) The Select Committee on the Banking Companies Bill (1946).
(D) The Bentinck Council on Government Banking (1806).

May/June 2023

88. Consider the following statements regarding the Reserve Bank of India's qualitative and quantitative measures:
I. Large swings in asset prices can pose a challenge for monetary policy.
II. Non-linearities in asset price changes can have a powerful effect on investment through a financial accelerator effect.
III. The RBI increased the risk weight on housing loans from 50 per cent to 75 per cent in December 2004.
IV. The RBI decreased the risk weight for consumer credit from 125 per cent to 100 per cent in July 2005.
V. Confidential supervisory information garnered through bank examinations can potentially improve the conduct of monetary policy.
Which combination of statements is correct?
(A) Only I, II, III, and V
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) I, II, III, IV, and V

NODIA

(A) The provisions of the Indian Companies Act.
(B) The Royal Charter of the East India Company.
(C) The Banking Companies (Restriction of Branches) Act, 1946.
(D) The Reserve Bank of India Act, 1934.

Oct/Nov 2024

67. Consider the following statements regarding the views on monetary and supervisory functions:
I. Roughly three-quarters of OECD nations assign their central banks either total or shared responsibility for bank supervision.
II. The former Governor of the Bank of England stated that monetary and financial stability are completely independent of each other.
III. Alan Greenspan argued that financial modernization should not undermine the central bank's ability to manage crises and assure a safe payment system.
IV. Ben Bernanke opined that the improvement of bank regulation is essential for promoting stable monetary policy.
Which combination of statements is correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

May/June 2017

68. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): The East India Company's government completely surrendered the right to regulate the monetary and credit system to the three Presidency banks.
Reason (R): The Royal Charter governed the three Presidency banks, and the charter was revised from time to time.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

69. The concern of a central bank governor about raising interest rates causing asset values to fall below loan amounts represents a conflict between which two functions?
(A) Monetary policy objectives and Prudential goals.
(B) Micro-prudential policy and Macro-prudential policy.
(C) Fiscal policy and Monetary transmission.
(D) Deposit insurance and Lender of last resort.

May/June 2020

70. Consider the following statements regarding the global backdrop of central banking:
I. Central banks typically manage liquidity in the interbank market, making them key players in crisis management.
II. In 1866, the collapse of bill brokers Overend Gurney and Company sent shock waves in the UK financial community.
III. In 1890, the Bank of England organized a rescue operation for the City of Glasgow Bank.
IV. Before 1863, only State Governments in the US had the power to regulate banks by issuing charters.
V. The National Bank Act of 1864 in the US stipulated that newly chartered banks had to buy federal debt.
Which combination of statements is correct?
(A) Only I, II, IV, and V
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2015

71. Which historical emergency legislation permitted the reopening of banks once examiners found them financially secure during a crisis?
(A) The Emergency Banking Relief Act of 1933.
(B) The National Bank Act of 1864.
(C) The Federal Reserve Act of 1913.
(D) The Banking Companies (Inspection) Ordinance of 1946.

May/June 2013

72. Consider the following statements regarding supervisory data and monetary policy:
I. Data collected as part of banking supervision provide valuable additional information that

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(D) P-4, Q-2, R-3, S-1

Oct/Nov 2007

61. Consider the following statements regarding the State Bank of India's consolidation phase:

I. The State Bank of Saurashtra merged with SBI on 13 August 2008.
II. The SBI board approved the absorption of State Bank of Indore on 19 June 2009.
III. State Bank of Bikaner and Jaipur (SBBJ) merged with SBI with effect from April 1, 2017.
IV. Bhartiya Mahila Bank (BMB) merged with SBI alongside the five associate banks.
V. Following the 2017 merger, the total customer base of the bank reached 50 crores.

Which combination of statements is correct?

(A) Only I, II, III, and IV
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) I, II, III, IV, and V

May/June 2025

62. Consider the following statements regarding the views on monetary and supervisory functions:

I. Roughly three-quarters of OECD nations assign their central banks either total or shared responsibility for bank supervision.
II. The former Governor of the Bank of England stated that monetary and financial stability are completely independent of each other.
III. Alan Greenspan argued that financial modernization should not undermine the central bank's ability to manage crises and assure a safe payment system.
IV. Ben Bernanke opined that the improvement of bank regulation is essential for promoting stable monetary policy.

Which combination of statements is correct?

(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2019

63. Consider the following statements regarding the banking crisis of 1913 in India:

I. The crisis revealed weaknesses such as the maintenance of an unduly low proportion of cash and other liquid assets.
II. Large unsecured advances were granted to directors of banks and to companies in which they were interested.
III. Following the inevitable crash, no scheduled banks failed, but many non-scheduled banks were liquidated.
IV. The amount of money lost, mostly the savings of the middle class, was over Rs. 26 crore.

Which combination of statements is correct?

(A) Only I, II, and IV
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

NODIA

May/June 2009

64. A banking failure caused by an unduly low proportion of cash and the grant of large unsecured advances to directors most closely mirrors which actual historical event?

(A) The secondary banking crisis in the UK in the 1970s.
(B) The Wall Street Crash impacting US private banks in 1930.
(C) The Indian banking crisis that occurred during 1913.
(D) The collapse of the City of Glasgow Bank in 1878.

Oct/Nov 2011

65. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): The auditor has to not only form a judgment of a bank's condition but also undertake whatever action appears necessary to protect depositors' interests.

Reason (R): For the supervisor, the primary responsibility is to a bank's depositors, whereas for the auditor, it is to the shareholders.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

66. Before the enactment of a specialized banking statute, under which prevailing framework were joint stock banks in India typically regulated?

May/June 2008

78. Consider the following statements regarding the theoretical underpinnings of regulation:

I. Central bank regulation and supervision over commercial banks is a very ancient phenomenon.
II. The conduct of supervision implies no special lack of confidence in the capacity of bankers to manage their own affairs.
III. The expansion of a bank beyond national frontiers poses immediate supervisory problems due to different legal systems.
IV. The auditor is concerned primarily with establishing the truth of facts presented by management.
V. The supervisor's concern extends to the implication of facts and judgments for the future viability of the business.

Which combination of statements is correct?

(A) Only I, II, III, and IV
(B) Only II, III, IV, and V
(C) Only I, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2013

79. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): The Reserve Bank of India reduced the risk weights on capital market and commercial real estate exposures in July 2005.

Reason (R): High growth in asset prices needs to be regulated through the prescription of appropriate risk weights to ensure credit quality.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

80. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): The European Commission proposed a governance structure that strictly separates the monetary functions from the supervisory functions.

Reason (R): The assignment of separate instruments and distinct objectives to the two policy branches is intended to resolve potential conflicts.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

81. A banking crisis characterized by a stock market crash, the establishment of an emergency relief act for bank reopening, and the creation of deposit insurance mirrors the history of which country and decade?

(A) United Kingdom in the 1870s.
(B) Canada in the 1920s.
(C) United States in the early 1930s.
(D) India in the 1940s.

May/June 2011

82. Consider the following statements regarding early commercial banking evolution in India:

I. The East India Company set up the Bank of Bombay in 1720 to increase trade and revenue.
II. The General Bank of Bengal and Bihar was floated in 1773.
III. The General Bank of India was floated in 1786 and claimed limited liability for its shareholders.
IV. The Government Bank in Madras was empowered to issue notes subject to some conditions in 1806.
V. The Union Bank was born by the merger of the Calcutta Bank and the Bank of Hindustan.

Which combination of statements is correct?

(A) Only I, II, III, and IV
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2020

83. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): In introducing legislation, several countries view the act of deposit taking as the

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May/June 2005

98. Which scholar argued that banking supervisors and those concerned with systemic stability must work closely together regardless of their physical location?
(A) Alan Greenspan
(B) Charles Goodhart
(C) Ben Bernanke
(D) Stefan Gerlach

Oct/Nov 2022

99. The argument that financial modernization should not undermine the central bank's ability to manage crises and assure a safe payment system is attributed to which of the following individuals?
(A) Charles Goodhart
(B) Warren Hastings
(C) Stefan Gerlach
(D) Alan Greenspan

May/June 2018

100. Following the 2017 merger of associate banks, the State Bank of India was projected to achieve a branch network of approximately:
(A) 15,000
(B) 24,000
(C) 37,000
(D) 59,000

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NODIA

Oct/Nov 2018

89. Based on historical prudential actions taken by the Reserve Bank of India, if a central bank were to apply similar measures to consumer credit including personal loans, what specific adjustment would it most likely make?
(A) Decrease the risk weight from 125 per cent to 100 per cent.
(B) Increase the risk weight from 100 per cent to 125 per cent.
(C) Increase the risk weight from 50 per cent to 75 per cent.
(D) Maintain a flat risk weight of 100 per cent across all sectors.

May/June 2007

90. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): Adding banking supervision to monetary policy can occasionally generate an inflationary bias and contribute to moral hazard.
Reason (R): A central bank might be inclined to continue lending to weak banks for fear that winding them up would trigger losses.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

91. Under which Act did the Government of India decide on the strict enforcement of the charter and periodic inspection of the books of the Presidency banks?
(A) Act III of 1840
(B) Act IX of 1843
(C) Act XI of 1876
(D) The Companies Act 43 of 1850

May/June 2012

92. Which scholar argued that adding banking supervision to monetary policy could occasionally generate an inflationary bias?
(A) Charles Goodhart
(B) Alan Greenspan
(C) Stefan Gerlach
(D) Ben Bernanke

Oct/Nov 2014

93. The Federal Deposit Insurance Corporation (FDIC) was established in 1933 to insure deposits. Up to what amount did this historical entity originally insure deposits?
(A) US $ 1,000
(B) US $ 5,000
(C) US $ 10,000
(D) US $ 50,000

May/June 2019

94. Which committee recommended the reconstitution of the Imperial Bank of India to form a State-partnered bank for prioritizing rural development?
(A) The Indian Central Banking Enquiry Committee
(B) The Select Committee on Banking
(C) The All India Rural Credit Survey Committee
(D) The Chamberlain Commission

Oct/Nov 2006

95. In the context of central banking, a thorough understanding of the transmission process from decision-making to economic effects aids in:
(A) Efficiency in policy implementation.
(B) Guaranteeing unlimited liability for shareholders.
(C) Separating monetary functions from supervisory functions.
(D) Eradicating the lender-of-last-resort function.

May/June 2021

96. Historical records indicate that the United States faced numerous financial crises followed by recessions because it did not have a central bank between which years?
(A) 1795 and 1836
(B) 1836 and 1914
(C) 1863 and 1933
(D) 1914 and 1949

Oct/Nov 2010

97. Which massive institution was formed in 1921 by the merger of the three Presidency banks (Bank of Bengal, Bank of Bombay, and Bank of Madras)?
(A) The Imperial Bank of India
(B) The Bank of Bengal
(C) The Union Bank
(D) The Reserve Bank of India

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may feed into macroeconomic assessment.
II. Analytical supervisory indicators can put new data to work in assessing credit developments.
III. A thorough understanding of banks' behaviour hinders the design of non-standard monetary policy measures.
IV. In turbulent times, integration of the supervisory function with the central bank creates opportunities for managing the central bank balance sheet.

Which combination of statements is correct?
(A) Only I, II, and III
(B) Only I, II, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2021

73. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): Prudential policies need to aim at promoting financial system stability, which is a precondition for macroeconomic stability.
Reason (R): International experience shows that financial and banking distress has been inextricably linked to currency and macroeconomic crises.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2024

74. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): The Bank of Canada was created completely separately from the bank regulator.
Reason (R): The Canadian Government established the Office of the Inspector General of Banks in 1925 after the collapse of the Home Bank.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

75. If legislation is enacted to address systemic bank failures following a commission's report on organization and management, which actual Indian legislation would it most closely resemble?
(A) The Companies Act 43 of 1850.
(B) The Paper Currency Act, 1861.
(C) The State Bank of India Act, 1955.
(D) The Banking Regulation Act, 1949.

May/June 2006

76. Consider the following statements regarding the Indian central banking experience:
I. The Banking Companies (Restriction of Branches) Act was passed in 1946 as an interim regulatory measure.
II. The Department of Banking Operations was organized in August 1945 to discharge duties devolving upon the Reserve Bank.
III. The Indian Central Banking Enquiry Committee (1929-31) opposed the enactment of a special Bank Act.
IV. The Banking Regulation Act was passed in February 1949 after amendments by a Select Committee.

Which combination of statements is correct?
(A) Only I, II, and IV
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

Oct/Nov 2017

77. To appropriately time the exit from non-standard prudential measures, what specific advantage does a central bank possess by housing both monetary and supervisory functions under one roof?
(A) It can rely entirely on external auditors' reports.
(B) It can issue government debt to bail out banks.
(C) It can transfer its regulatory responsibilities to a separate agency like the FSA.
(D) It possesses a thorough understanding of banking behavior and health across multiple jurisdictions.

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ANSWERS

1. (D) 1979
The Banking Act of 1979 represented a landmark shift in the United Kingdom by granting the Bank of England its first formal statutory mandate for supervising deposit-taking institutions. Prior to this legislation, the central bank relied on informal methods. This act institutionalized regulatory oversight to ensure financial stability and protect the interests of depositors across the nation.

2. (C) It emphasized the need for enacting a special Bank Act covering the organization, management, audit, and liquidation of banks.
The Indian Central Banking Enquiry Committee of 1929-31 played a pivotal role in shaping the country's financial landscape. It highlighted significant deficiencies in the prevailing system and strongly advocated for a specialized Bank Act. Such legislation was intended to comprehensively govern various aspects of banking operations, including organizational structures, management standards, auditing procedures, and liquidation protocols.

3. (C) Asset quality
Within the dynamic CAMEL supervisory framework, the specific evaluation of a bank's loan portfolio is captured under the assessment of asset quality. This element is critical because the majority of banking losses typically originate from poorly managed credit risks. Evaluators look at non-performing assets and concentration risks to determine the overall health and sustainability of an institution.

4. (C) Charles Goodhart argued that banking supervisors and central banks must operate in complete isolation regardless of their physical location.
Prominent experts often discuss the ideal relationship between monetary and supervisory functions within a central bank. While some advocate for separation to avoid conflicts of interest, Charles Goodhart argued that supervisors and those managing systemic stability should collaborate closely. He believed that isolation is impractical because the two functions are inherently linked in maintaining a healthy economy.

5. (B) Their role as lender of last resort managing interbank liquidity makes them key players.
Central banks occupy a central position in crisis management primarily due to their unique capacity to provide liquidity to the financial system. Acting as the lender of last resort, they stabilize the interbank market during periods of extreme stress. This function ensures that temporary liquidity shortages do not escalate into systemic failures, regardless of their formal supervisory duties.

6. (B) Home Bank
During the eighteenth and nineteenth centuries, India witnessed the emergence of various banking institutions established either privately or under government patronage. Notable examples from this period include the Bank of Hindustan, the Carnatic Bank, and the British Bank. However, the Home Bank was a Canadian institution whose collapse in the early twentieth century influenced regulatory developments in that country.

7. (B) The act of deposit taking
Global banking history reveals that many nations introduced statutory controls over financial institutions specifically in response to the practice of deposit taking. This activity creates a unique fiduciary responsibility for bankers who manage the public's money. Regulators seek to protect depositors from potential mismanagement or institutional failure by establishing rigorous legal frameworks that govern how these funds.

8. (B) The supervisory principles were applied flexibly to match specific features of institutions.
The Banking Act of 1979 in the United Kingdom established a formal framework for supervision while allowing for operational flexibility. Rather than applying rigid rules to all entities, the Bank of England tailored its supervisory principles to suit the specific characteristics and risks of

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80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The European Commission proposed a governance structure characterized by a strict separation between monetary and supervisory functions. This approach aims to resolve potential conflicts of interest by assigning distinct objectives and instruments to each policy branch. By ensuring that these functions operate independently within the central bank framework, the goal is to maintain the integrity and effectiveness of both mandates.

81. (C) United States in the early 1930s.
The early 1930s in the United States were marked by a severe financial crisis following the 1929 stock market crash. This period saw the enactment of the Emergency Banking Relief Act to manage bank reopenings and the establishment of the Federal Deposit Insurance Corporation. These historical events were pivotal in reshaping the American financial system and restoring public confidence in banks.

82. (A) Only I, II, III, and IV
Early Indian banking history includes several significant milestones. The Bank of Bombay was founded in 1720, followed by the General Bank of Bengal and Bihar in 1773. The General Bank of India claimed limited liability in 1786, and the Government Bank in Madras issued notes in 1806. However, the Union Bank was formed from the Calcutta and Commercial Banks.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Many countries identify the act of deposit taking as the primary trigger for implementing statutory controls over banking institutions. This is because bankers assume a unique and significant fiduciary responsibility when they accept and manage other people's money for safekeeping. Regulatory frameworks are therefore necessary to protect depositors and ensure that banks manage these public funds with appropriate care.

84. (C) A financial accelerator effect.
When central bank actions lead to a fall in asset prices, it can trigger a non-linear reduction in investment by property developers and other businesses. This phenomenon is known as the financial accelerator effect. It occurs because declining asset values weaken balance sheets and reduce the ability to borrow, which in turn leads to a further decrease in economic activity and investment.

85. (D) Assertion (A) is false, but Reason (R) is true.
The Companies Act of 1850 in India did not grant limited liability to banking and insurance companies; instead, it specifically excluded them from this privilege. This disability was not removed until the enactment of the Act of 1860, which finally allowed these institutions to operate with limited liability. Thus, the assertion is historically incorrect, while the supporting reasoning is true.

86. (A) Only I, II, and III
The Bank of Calcutta, established in 1806, was a pioneering joint stock bank with limited liability that later became the Bank of Bengal. These institutions introduced key innovations like shareholder limited liability. However, the East India Company did not relinquish its regulatory rights to the Presidency banks; rather, it maintained oversight and control through their respective charters and periodic revisions.

87. (B) The Indian Central Banking Enquiry Committee (1929-31).
The Indian Central Banking Enquiry Committee was established to investigate the systemic weaknesses and frequent failures within the country's banking sector. Similar to commissions in other nations, it focused on issues like low liquidity and improper advances to directors. The committee's findings and recommendations were instrumental in advocating for the creation of a specialized Bank Act to improve management and oversight.

88. (A) Only I, II, III, and V
Large asset price swings challenge monetary policy, often impacting investment via the financial accelerator effect. To address this, the RBI increased housing loan risk weights in 2004. Furthermore, confidential supervisory data can enhance monetary policy decisions. However, the RBI actually increased the risk weight for consumer credit in 2005 rather than decreasing

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under a Royal Charter and renamed the Bank of Bengal in 1809. This distinction is important as it marked the beginning of limited liability banking.

18. (B) US $ 5,000
The Banking Act of 1933 in the United States introduced critical reforms to restore public confidence in the financial system. A key provision was the creation of the Federal Deposit Insurance Corporation to protect depositors. Initially, this entity provided insurance for all bank deposits up to a limit of five thousand dollars, shielding ordinary citizens from the impact of failures.

19. (D) It called for a governance structure that strictly separates the monetary functions from the supervisory functions.
To manage potential conflicts of interest within a central bank, the European Commission recommended a specific governance framework. This proposal advocated for a strict separation between monetary policy and banking supervision. By assigning different objectives and instruments to each branch, the goal was to ensure that neither function compromised the effectiveness or the credibility of the other in practice.

20. (A) It could cause the value of loan-underpinning assets to fall below total loan amounts.
Monetary policy decisions can have unintended consequences for the stability of the banking sector. When inflationary pressures force a central bank to raise interest rates sharply, the market value of assets used as collateral for loans may decline. If these asset values fall below the total outstanding loan amounts, it creates significant prudential concerns and increases the risk of defaults.

21. (C) Unrestricted provision for the acceptance of all private securities without explicit limits
The Bank of Bengal revolutionized Indian banking by introducing the joint stock system and providing limited liability to its shareholders via a Royal Charter. It also established provisions for note issuance that were accepted for government revenue payments. However, it did not allow for unrestricted acceptance of private securities; instead, it maintained explicit limits on credit to ensure institutional safety.

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22. (B) Financial Services Authority
In the United Kingdom, the regulatory landscape shifted significantly when supervisory responsibilities were transferred away from the central bank. For a period, the Financial Services Authority was tasked with overseeing the banking sector. However, this arrangement was eventually reversed, and the supervisory mandate was brought back under the authority of the Bank of England to better integrate stability functions.

23. (D) To address the unique fiduciary responsibility of accepting public money for safety.
Banks are subject to statutory oversight because of their unique role in handling the public's financial assets. When banks accept deposits, they assume a fiduciary responsibility to keep those funds safe and accessible. This specialized relationship necessitates rigorous regulation to maintain public trust and prevent the systemic consequences that arise when depositors lose confidence in the safety of their holdings.

24. (D) The All India Rural Credit Survey Committee recommended privatizing the Imperial Bank of India to form a purely commercial entity.
The evolution of the State Bank of India was guided by strategic national interests rather than privatization. The All India Rural Credit Survey Committee recommended creating a state-partnered bank by taking over the Imperial Bank of India. This move was intended to prioritize rural development and expand credit access, leading to the enactment of the State Bank of India Act.

25. (B) Only State Governments had the power to regulate banks, consisting merely in issuing bank charters.
Prior to 1863, the banking system in the United States was decentralized and lacked federal oversight. Regulation was the exclusive domain of state governments, and their involvement was generally limited to the issuance of bank charters. This lack of a national regulatory framework often resulted in inconsistent standards and contributed to the frequent financial instabilities observed during that era.

stated that monetary and financial stability are interrelated, which contradicts the claim made in the second statement.

63. (A) Only I, II, and IV
The 1913 Indian banking crisis highlighted major weaknesses, including low cash reserves and improper loans to directors. The resulting losses, primarily affecting the middle class, did not exceed twenty-six crore rupees. While many non-scheduled banks failed, some scheduled banks were also liquidated during this period. Therefore, the statement claiming that no scheduled banks failed is incorrect, while the other points are accurate.

64. (C) The Indian banking crisis that occurred during 1913.
The Indian banking crisis of 1913 is historically significant for exposing severe internal mismanagement within the financial sector. Banks during this time often operated with insufficient cash reserves and granted large, unsecured advances to their own directors. These practices led to a massive failure of numerous institutions, resulting in substantial financial losses for the middle class and prompting calls for regulation.

65. (D) Assertion (A) is false, but Reason (R) is true.
The roles of auditors and supervisors are distinct in their objectives and responsibilities. While an auditor reports financial information to shareholders, it is the supervisor who must take action to protect the interests of depositors. Therefore, the assertion that the auditor protects depositors is incorrect, although the reasoning regarding the primary responsibilities of each party to their respective stakeholders is true.

66. (A) The provisions of the Indian Companies Act.
Before the enactment of a specialized banking statute like the Banking Regulation Act of 1949, joint stock banks in India did not have a dedicated legal framework. Instead, they were primarily regulated under the broader provisions of the Indian Companies Act. This general corporate law governed their organizational and operational aspects until the need for more specific banking oversight was recognized.

67. (B) Only I, III, and IV
Most OECD nations involve their central banks in banking supervision. Leading central bankers like Alan Greenspan and Ben Bernanke have emphasized the importance of maintaining supervisory authority to manage crises and support monetary policy. However, the former Governor of the Bank of England actually stated that monetary and financial stability are interrelated, which contradicts the claim made in the second statement.

68. (D) Assertion (A) is false, but Reason (R) is true.
The East India Company did not surrender its right to regulate the monetary and credit system; instead, it maintained control and periodically revised the Royal Charter that governed the Presidency banks. While the charter was indeed the governing document for these banks, the assertion that the government completely gave up its regulatory authority is historically inaccurate, as oversight remained a priority.

69. (A) Monetary policy objectives and Prudential goals.
A central bank faces a potential conflict when its monetary policy objectives require a sharp increase in interest rates to control inflation. While this helps stabilize prices, it can simultaneously undermine prudential goals by causing the value of assets used as collateral for loans to fall. This decline can weaken the balance sheets of banks, highlighting the tension between these two functions.

70. (A) Only I, II, IV, and V
Central banks play a key role in managing liquidity during crises. In 1866, the collapse of Overend Gurney impacted the UK. In the US, state governments controlled banking before 1863, and the 1864 Act required banks to buy federal debt. However, the Bank of England's 1890 rescue was for Baring Brothers, not the City of Glasgow Bank, making that statement incorrect.

71. (A) The Emergency Banking Relief Act of 1933.
During the height of the Great Depression, the United States government enacted the Emergency Banking Relief Act of 1933. This critical piece of legislation was designed to stabilize the failing banking sector. It provided a framework for

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35. (A) P-2, Q-3, R-1, S-4
The consolidation of the State Bank of India occurred through several key events. The Imperial Bank was formed from Presidency banks in 1921. Later, the State Bank of Saurashtra merged in 2008, followed by the approval for State Bank of Indore in 2009. Finally, the merger of five associate banks and the Bhartiya Mahila Bank took effect on April 1, 2017.

36. (C) Only I and III
Company law in India was established with the Act of 1850, which was modeled after English legislation. While the Act of 1857 allowed limited liability for many companies, it specifically excluded banking and insurance firms from this privilege. This disability for banking companies remained until it was finally removed by the Act of 1860, allowing them to also benefit from limited liability.

37. (A) Monetary and financial stability policies are inherently intertwined.
Even when a separate institution conducts day-to-day regulation, central banks typically retain a financial stability function. This is because monetary policy and financial stability are deeply linked. Instability in the banking sector can severely disrupt the transmission of monetary policy, while policy decisions themselves impact the health of financial institutions. Maintaining this function ensures the central bank can effectively manage crises.

38. (A) P-2, Q-3, R-1, S-4
The Reserve Bank of India utilized risk weights to manage credit growth in specific sectors. Initially, housing loans carried a fifty percent risk weight, which was raised to seventy-five percent in late 2004. Similarly, the risk weight for consumer credit was increased from its original level of one hundred percent to one hundred and twenty-five percent in July 2005.

39. (B) Only II
Auditors and supervisors have distinct roles and responsibilities within the banking sector. The primary responsibility of a supervisor is to protect depositors, whereas an auditor is responsible to the shareholders. While auditors verify historical facts, supervisors must look beyond these figures to evaluate the future viability of the business. Thus, only the second statement regarding the supervisor's broader concerns is correct.

40. (B) P-1, Q-4, R-2, S-3
U.S. banking legislation evolved through several key acts. The 1864 Act introduced bank licensing via the Comptroller of the Currency. In 1913, the Federal Reserve Act created a central reserve system. The Emergency Banking Relief Act of 1933 allowed for reopening secure banks, while the Banking Act of 1933 tightened investment controls and established the Federal Deposit Insurance Corporation.

41. (B) Only II and III
In the late 1990s, the global trend was actually toward moving supervision away from central banks, not placing it exclusively within them. Historically, the United Kingdom lacked a formal banking regulation system before the 1970s. Additionally, the Canadian government established the Inspector General's office in 1925, nine years before the Bank of Canada was created in 1934.

42. (C) The maintenance of low cash reserves combined with granting large unsecured advances to directors.
The Indian banking crisis of 1913 revealed severe structural and ethical failures within the industry. A major cause of bank collapses, particularly in West Bengal, was the dangerous combination of maintaining insufficient cash reserves and providing large, unsecured loans to company directors. These irresponsible practices left institutions highly vulnerable to shocks, leading to widespread liquidations and significant financial losses.

43. (B) Non-standard monetary policy - Facilitated by thorough understanding of banks' behaviour
Effective central banking requires a deep understanding of financial institutions. Having a thorough grasp of bank behavior is essential for designing and implementing non-standard monetary policy measures, especially during periods of economic turbulence. This knowledge ensures that policy actions are appropriately calibrated to achieve the desired effects on liquidity and stability, which might not be possible with standard tools alone.

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different institutions. This approach ensured that regulation was effective without being unnecessarily burdensome for diverse players.

9. (B) From 1836 until 1914, the United States maintained a robust and centralized national bank.
The history of banking in the United States is marked by periods of significant decentralization. Between the years 1836 and 1914, the country lacked a centralized national bank, leading to numerous financial panics and recessions. This period of instability eventually prompted the creation of the Federal Reserve System in 1913 to provide a more stable monetary framework.

10. (B) August 1945
The Reserve Bank of India recognized the need for a dedicated administrative unit to handle its growing supervisory duties during the mid-1940s. Consequently, the Department of Banking Operations was formally organized in August 1945. This department was tasked with discharging various responsibilities that were increasingly devolving upon the central bank as it moved toward a more regulated system.

11. (D) State Bank of Indore
In April 2017, the Indian banking sector underwent a massive consolidation as several entities merged with the State Bank of India. This group included the State Bank of Bikaner and Jaipur, the State Bank of Mysore, and the Bhartiya Mahila Bank. In contrast, the State Bank of Indore had been absorbed earlier, with its merger being approved in 2009.

12. (C) Partnership firms with unlimited liability
Early private banking institutions in India operated under legal structures that differed significantly from modern corporate models. For instance, the Union Bank, created through the merger of the Calcutta Bank and the Commercial Bank, was established as a partnership firm. These entities were characterized by unlimited liability for their partners, reflecting the high personal risk associated with early banking.

13. (A) The use of the joint stock system for raising capital.
The establishment of the Bank of Bengal introduced transformative innovations to the Indian banking landscape. A primary contribution was the introduction of the joint stock system for raising capital, which allowed for broader participation in the bank's funding. This organizational shift, along with the provision of limited liability for shareholders, marked a departure from the traditional partnership models.

14. (C) By providing additional supervisory data that enhances the granularity of information.
Combining banking supervision with central bank functions offers significant advantages for macroeconomic analysis. The data gathered through rigorous supervisory activities provide a more detailed and granular view of the financial system's health. This enhanced information flow allows policymakers to make better-informed decisions regarding monetary policy, especially during periods of economic uncertainty or stress within the banking sector.

15. (D) United States
Several countries have historically opted to separate their central banking functions from their regulatory authorities. Nations such as Chile, Mexico, and Peru developed distinct bodies to handle these responsibilities independently. However, the United States follows a different model where the Federal Reserve maintains significant supervisory powers over banks, reflecting a more integrated approach to monetary policy and stability.

16. (A) To report on the directors' account information for the bank's shareholders
In the financial ecosystem, a bank auditor's primary duty is clearly defined and limited in scope compared to a supervisor. The auditor is responsible for reporting on the accuracy and truthfulness of the financial information provided by the bank's directors. This report is intended for the shareholders to confirm that the presented accounts reflect the institution's actual financial state.

17. (A) The Bank of Calcutta was established in 1806 as a partnership firm with unlimited liability.
Historical records show that the Bank of Calcutta was established in 1806, but it was notable for being a joint stock bank rather than a partnership firm with unlimited liability. It was later brought

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under a Royal Charter in 1809. The Bank of Bombay was established by Act III of 1840, and the Bank of Madras by Act IX of 1843. Finally, the Paper Currency Act of 1861 abolished their note-issuance rights.

54. (C) Both I and II
Between 1836 and 1914, the United States famously operated without a central bank, leading to significant financial volatility. The Federal Reserve System was subsequently established in 1913 to address these instabilities. It was designed to act as a money-creator of last resort, providing necessary liquidity to prevent the downward spiral of fund withdrawals that characterized earlier banking crises.

55. (A) Government Bank in Madras - Started functioning in 1806 empowered to issue notes
Early Indian banking history highlights specific milestones for various institutions. The Government Bank in Madras began its operations in 1806 and was uniquely authorized to issue currency notes under certain conditions. Other banks, like the Union Bank, were partnership firms with unlimited liability rather than statutory bodies, making the other options incorrect in their descriptions of these early entities.

56. (A) Only I and II
When Baring Brothers faced a severe crisis in 1890, the Bank of England intervened to maintain systemic stability. Instead of letting the institution fail, it organized a comprehensive rescue operation. This involved creating a guarantee fund that was backed by several joint-stock banks. This collaborative effort effectively prevented a wider financial collapse and demonstrated the central bank's stabilizing role.

57. (A) Only I and II
The State Bank of India was formed following the merger of three Presidency banks into the Imperial Bank in 1921. Later, the All India Rural Credit Survey Committee recommended its transformation into a state-partnered entity. However, the State Bank of India (Subsidiary Banks) Act was actually passed in 1959, not 1955, which makes the third statement in the list incorrect.

58. (C) P-3, Q-1, R-4, S-2
Early commercial banks in India were established during the late eighteenth and early nineteenth centuries. The Carnatic Bank was founded in 1788, followed by the Madras Bank in 1795. The Asiatic Bank was established in 1804, and the Commercial Bank began its operations in 1819. These dates mark the initial growth of formalized banking institutions within the Indian subcontinent.

59. (A) Only I
The Banking Act of 1979 was a significant piece of legislation that granted the Bank of England formal statutory responsibility for supervising deposit-taking institutions. While it established this mandate, the Act did not require the bank to follow rigid, detailed legal provisions for its daily operations. Instead, the central bank maintained a flexible approach, making the second statement in the pair incorrect.

60. (C) P-3, Q-1, R-4, S-2
The evolution of Indian company and banking laws followed a structured path. The 1850 Act was based on English law, while the 1860 Act introduced limited liability for banking companies. The 1913 Act was a comprehensive re-enactment of company law. Finally, the Banking Regulation Act of 1949 provided a holistic framework for the entire banking industry, covering everything from setup to amalgamation.

61. (A) Only I, II, III, and IV
The State Bank of India underwent several mergers, starting with the State Bank of Saurashtra in 2008 and State Bank of Indore in 2009. The 2017 consolidation included five associate banks and the Bhartiya Mahila Bank. While these statements are accurate, the resulting customer base was approximately thirty-seven crores, not fifty crores, making the fifth statement in the list incorrect.

62. (B) Only I, III, and IV
Most OECD nations involve their central banks in banking supervision. Leading central bankers like Alan Greenspan and Ben Bernanke have emphasized the importance of maintaining supervisory authority to manage crises and support monetary policy. However, the former Governor of the Bank of England actually

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44. (B) P-1, Q-4, R-2, S-3
Various experts have offered perspectives on central banking functions. Alan Greenspan emphasized crisis management authority, while Ben Bernanke highlighted the link between regulation and stable monetary policy. Charles Goodhart stressed cooperation between supervisors and stability experts. Stefan Gerlach pointed out that combining functions could lead to inflationary bias. These diverse views reflect the ongoing debate regarding the optimal central bank structure.

45. (A) Only I and II
During the American crisis of the 1930s, the stock market crash significantly eroded the funds of private banks. The Emergency Banking Relief Act was enacted to allow banks to reopen once they were deemed financially secure by examiners. However, the Federal Deposit Insurance Corporation initially insured deposits only up to five thousand dollars, not fifty thousand, making the third statement incorrect.

46. (B) To ensure credit quality in view of non-linearities in asset price changes.
Central banks may adjust risk weights for sectors like housing and retail finance to safeguard financial stability. This action is taken to ensure credit quality when there are rapid changes in asset prices. Since non-linear fluctuations in asset values can significantly impact the broader economy, these prudential measures help prevent excessive risk-taking and protect the banking system from sudden shocks.

47. (A) Only I
A conflict can arise between monetary and prudential goals when interest rates are raised sharply to combat inflation. This can cause the value of assets used as collateral for loans to fall, potentially leading to losses for banks. However, it is not standard advice for monetary policy to focus on stability while prudential policy focuses on prices; typically, the roles are reversed.

48. (A) P-2, Q-3, R-1, S-4
The United Kingdom's financial history includes several significant events. In 1866, Overend Gurney and Company collapsed. The City of Glasgow Bank failed in 1878, followed by a rescue operation for Baring Brothers in 1890. Eventually, the Banking Act of 1979 was passed, which formally increased the Bank of England's supervisory role over various types of deposit-taking institutions.

49. (A) Closure of the Bank of the United States - 1933
The timeline of major banking events in the United States includes the National Bank Act of 1864 and the Federal Reserve Act of 1913. The Emergency Banking Relief Act was passed in 1933 during the Great Depression. However, the Bank of the United States was closed much earlier, in 1836, following a political struggle over its charter renewal.

50. (D) P-4, Q-2, R-3, S-1
Central banking involves several key theoretical concepts. Moral hazard occurs when a central bank continues lending to weak institutions to avoid systemic losses. Fiduciary responsibility is the duty bankers assume when safeguarding public money. The financial accelerator effect describes how asset price changes impact consumption and investment. Finally, systemic stability remains the fundamental motive for creating robust regulatory frameworks.

51. (C) Only I and III
The Reserve Bank of India's supervisory activities are strengthened by its focus on price stability. Furthermore, the central bank must be able to respond quickly to stress within a dynamic financial system. However, the claim that the Reserve Bank lacks the insight to manage crises is incorrect, as its integrated role actually provides the authority needed for such interventions.

52. (B) III, I, II, IV
Historical banking events in the United Kingdom followed a specific chronological path. It began with the collapse of Overend Gurney and Company in 1866. This was followed by the failure of the City of Glasgow Bank in 1878. Next was the Baring Brothers rescue in 1890. Finally, the secondary banking crisis of the 1970s led to the 1979 Act.

53. (D) P-4, Q-2, R-3, S-1
The development of Indian Presidency banks was marked by specific years and legislative outcomes. The Bank of Bengal was brought

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examiners to evaluate the financial health of banks and permitted them to reopen for business only once they were found to be financially secure.

72. (B) Only I, II, and IV
Supervisory data provide valuable insights that enhance macroeconomic assessments and help manage the central bank's balance sheet during turbulent times. Analytical indicators derived from this data are useful for assessing credit developments. However, a thorough understanding of banking behavior does not hinder the design of non-standard monetary policy; rather, it is a key facilitator, making the third statement incorrect.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Prudential policies are essential for ensuring the stability of the financial system, which serves as a necessary foundation for broader macroeconomic stability. This is because international evidence demonstrates that banking and financial distress are frequently and inextricably linked to currency and macroeconomic crises. Therefore, maintaining a stable banking sector is a critical prerequisite for achieving and sustaining overall economic health.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Bank of Canada was created as an institution separate from the existing bank regulator. This structural division was established because the Canadian government had already founded the Office of the Inspector General of Banks in 1925 following the collapse of the Home Bank. Consequently, the central bank was formed nine years later with its own distinct mandate and operational focus.

75. (D) The Banking Regulation Act, 1949.
In the Indian context, the Banking Regulation Act of 1949 was enacted to provide a comprehensive legal framework for the banking sector. This legislation followed recommendations from bodies like the Indian Central Banking Enquiry Committee, which highlighted the need for specialized oversight. It addresses various aspects of bank organization, management, and liquidation to prevent the systemic failures observed in earlier years.

76. (A) Only I, II, and IV
India's banking regulation evolved through several key milestones in the late 1940s. The Department of Banking Operations was organized in 1945, followed by the Restriction of Branches Act in 1946. The Banking Regulation Act was finally passed in 1949. However, the Indian Central Banking Enquiry Committee actually advocated for a special Bank Act rather than opposing it, making statement III incorrect.

77. (D) It possesses a thorough understanding of banking behavior and health across multiple jurisdictions.
Housing both monetary and supervisory functions within a central bank provides a significant informational advantage. This integrated structure allows the bank to develop a deep and thorough understanding of how financial institutions behave and their overall health across various regions. Such insights are crucial for correctly timing the exit from non-standard prudential measures without causing unnecessary disruption to the financial system.

78. (B) Only II, III, IV, and V
Supervision is not based on a lack of confidence but on the need for systemic stability. Expanding banks across borders creates new challenges, and the roles of auditors and supervisors remain distinct in their scope and focus. However, central bank supervision is not an ancient phenomenon; it is a relatively modern development that emerged as financial systems became more complex.

79. (D) Assertion (A) is false, but Reason (R) is true.
The Reserve Bank of India actually increased, rather than reduced, the risk weights on capital market and commercial real estate exposures in July 2005. This action was taken because rapid growth in asset prices needs to be regulated through appropriate risk weights to maintain credit quality. While the reasoning regarding the need for regulation is correct, the assertion itself is false.

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26. (D) To increase trade and thereby the revenue of the Company
The East India Company established the Bank of Bombay in 1720 with a clear commercial motive. The primary objective was to facilitate and increase trade, which would subsequently boost the company's overall revenue. While the bank served as a precursor to more structured institutions, its initial purpose was closely tied to the economic interests and expansion of the company.

27. (A) Market share
The CAMEL framework is a widely recognized supervisory tool used to evaluate the financial health of banks through specific dynamic parameters. It stands for capital adequacy, asset quality, management quality, earnings profitability, and liquidity. While market share is an important business metric, it is not one of the five core internal indicators assessed under this particular regulatory checklist for stability.

28. (C) 1925
The collapse of the Home Bank in Canada highlighted critical weaknesses in the existing oversight of financial institutions. In response to this crisis, the Canadian government took steps to formalize its regulatory framework. This led to the establishment of the Office of the Inspector General of Banks in 1925, providing a dedicated authority to monitor the health and stability of banks.

29. (C) For the supervisor, the primary responsibility is to the shareholders of the banking institution.
Bank auditors and supervisors have distinct mandates within the financial system. Auditors focus on verifying the accuracy of financial statements for shareholders. Conversely, the primary responsibility of a supervisor is to protect the interests of depositors. They must form an independent judgment of the bank's overall health and future viability to ensure the stability of the entire banking system.

30. (D) The central bank could relax monetary policy to support weak banks, encouraging risk-taking.
A significant risk associated with combining monetary policy and banking supervision is known as moral hazard. If a central bank acts as a supervisor, it might be tempted to loosen monetary policy to support struggling banks under its watch. This perceived safety net can encourage financial institutions to take excessive risks, believing the central bank will intervene to prevent failure.

31. (A) II, IV, I, III
The chronological development of early Indian banking follows a specific sequence. First, the East India Company set up the Bank of Bombay in 1720. This was followed by the General Bank of Bengal and Bihar in 1773. Subsequently, the General Bank of India was established in 1786. Finally, the private Madras Bank was founded in the year 1795.

32. (B) United States - Maintained a continuous and uninterrupted central banking system from 1836 to 1914
Historically, several countries experienced shifts in their regulatory and central banking structures. While the United Kingdom and Australia modified their institutional mandates, the United States notably lacked a centralized national bank for a long period. Between 1836 and 1914, the U.S. banking system operated without a central bank, leading to several financial panics before the Federal Reserve was created.

33. (B) The relationship is complementary, with the banking system acting as the primary vehicle.
Monetary policy and banking soundness are deeply interconnected and function in a complementary manner. The banking system serves as the primary channel through which monetary policy decisions are transmitted to the broader economy. Consequently, the health of financial institutions is essential for the effective implementation of policy, as a fragile banking sector can hinder the intended economic outcomes and stability.

34. (A) Only I
Initially, the operations of the Presidency banks in India were restricted to basic functions like discounting bills, maintaining accounts, and issuing notes. However, the Paper Currency Act of 1861 did not expand their note-issuing authority; rather, it abolished this right, transferring it to the government. Therefore, while the first statement accurately reflects their early business scope, the second statement is incorrect.

NODIA

it, which makes the fourth statement in the list incorrect.

89. (B) Increase the risk weight from 100 per cent to 125 per cent.
To manage high credit growth and maintain financial stability, the Reserve Bank of India historically adjusted risk weights for various loan categories. For consumer credit, including personal loans, the central bank took the prudential step of increasing the risk weight from its standard level of one hundred percent to one hundred and twenty-five percent. This measure ensures banks hold more capital.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Combining banking supervision with monetary policy can lead to an inflationary bias and moral hazard. This occurs because a central bank might be reluctant to tighten policy if it fears that doing so would harm weak banks under its supervision. Consequently, it may continue lending to these institutions to avoid triggering systemic losses, which encourages further risk-taking by the banks.

91. (C) Act XI of 1876
The regulatory framework for Presidency banks in India evolved through several legislative updates. Under Act XI of 1876, the Government of India decided to strictly enforce the provisions of their charters. This act also mandated the periodic inspection of the banks' books, representing a significant step toward formalized government oversight and accountability for these major financial institutions during the nineteenth century.

92. (C) Stefan Gerlach
The debate over the integration of monetary and supervisory functions includes concerns about potential drawbacks. Stefan Gerlach is a notable scholar who argued that adding banking supervision to a central bank's mandate could occasionally lead to an inflationary bias. This perspective suggests that the central bank might compromise its price stability goals to support the financial health of the banking sector.

93. (B) US $ 5,000
To address the systemic instability and widespread loss of public trust during the Great Depression, the United States passed the Banking Act of 1933. This legislation established the Federal Deposit Insurance Corporation to provide a safety net for depositors. Initially, the FDIC provided insurance coverage for all bank deposits up to a maximum limit of five thousand dollars per account.

94. (C) The All India Rural Credit Survey Committee
The All India Rural Credit Survey Committee played a crucial role in restructuring the Indian banking landscape. Recognizing the need for increased support for rural development, the committee recommended the reconstitution of the Imperial Bank of India. This led to the creation of a state-partnered bank, the State Bank of India, which was tasked with prioritizing credit access in rural areas.

95. (A) Efficiency in policy implementation.
Central banks must have a comprehensive understanding of the transmission process to ensure that their policy decisions translate effectively into the desired economic outcomes. This knowledge allows for greater efficiency in policy implementation, as regulators can better predict how changes in interest rates or liquidity will affect the behavior of financial institutions and the broader economy, particularly during periods of stress.

96. (B) 1836 and 1914
Between the years 1836 and 1914, the United States operated without a centralized national bank, following the closure of the Second Bank of the United States. This era was characterized by significant financial instability, with numerous banking crises often followed by severe economic recessions. This recurring instability eventually led to the passage of the Federal Reserve Act in 1913.

97. (A) The Imperial Bank of India
A major consolidation in Indian banking history occurred in 1921 with the merger of the three Presidency banks. The Bank of Bengal, the Bank of Bombay, and the Bank of Madras, along with their various branches, were combined to form the Imperial Bank of India. This massive

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(B) P-1, Q-3, R-4, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2013

36. Consider the following statements regarding the Resolution Framework 2.0 issued on May 5, 2021:
I. It was specifically aimed at individuals and small businesses.
II. It permitted the implementation of resolution plans with a mandatory downgrade in asset classification.
III. An aggregate exposure limit of ₹50 crore as on March 31, 2021, was set for small and individual owned businesses.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2015

37. What was the primary focus of regulation and supervision of the banking system during the 1950s?
(A) To facilitate the creation of a banking structure that caters to the nascent economy embarking on planned economic growth
(B) To introduce complex capital adequacy norms in line with international Basel standards
(C) To actively reduce the number of Scheduled Commercial Banks through forced liquidations
(D) To fully deregulate interest rates and grant complete operational autonomy

Oct/Nov 2012

38. Match the observations regarding the financial performance of Scheduled Commercial Banks (SCBs) with the correct outcome or feature:
List I: (Financial Performance Observation)
P. Total Income
Q. Expenditure
R. Profitability of Banks
S. Provisioning
List II: (Outcome/Feature)
1. Contracted, led by a decline in interest expended on deposits
2. Frontloaded in the March 2020 quarter resulting in higher coverage ratio
3. Improved, with the spread between return on funds and cost of funds widening
4. Remained stable, cushioned by a sizeable increase in income from investments
(A) P-4, Q-1, R-3, S-2
(B) P-2, Q-3, R-4, S-1
(C) P-1, Q-4, R-2, S-3
(D) P-3, Q-2, R-1, S-4

May/June 2011

39. Consider the following statements regarding the branch licensing policy post-nationalization:
I. The Reserve Bank conceived a perspective plan calling for a branch expansion programme covering the three years from 1972 to 1974.
II. The Ministry of Finance felt that the proportion of rural offices opened by banks had shown an increasing trend and branch expansion in rural areas should be slowed down.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

Oct/Nov 2020

40. Match the aggregate micro-prudential indicator categories with their specific metrics:
List I: (Indicator Category)
P. Systems and Controls
Q. Earnings and Profitability
R. Sensitivity to Market Risk
S. Market-based Indicators
List II: (Specific Metrics)
1. Return on Assets
2. Audit compliance and internal inspections systems
3. Indicators of excess yields
4. Equity price risk
(A) P-4, Q-1, R-3, S-2
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-2, R-3, S-4

May/June 2022

41. Consider the following statements regarding the Reserve Bank's unconventional measures during the pandemic:

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CHAPTER 14

Scheduled Commercial Banks: Development, Regulation & Performance

May/June 2016

1. On what date were 14 major commercial banks nationalized, marking a turning point in the Indian banking system?
(A) May 19, 1968
(B) July 19, 1969
(C) July 18, 1970
(D) December 15, 1981

Oct/Nov 2009

2. Which statement correctly identifies a trend in the maturity profile of assets and liabilities of Scheduled Commercial Banks during 2020-21?
(A) The negative gap in the maturity bucket of up to one year widened significantly due to a massive outflow of wholesale deposits.
(B) Public sector banks relied entirely on short-term borrowings while private sector banks eliminated all long-term borrowings.
(C) The positive gap in the long-term bucket turned negative as banks attracted more long-term deposits.
(D) The maturity mismatch was completely neutralized due to the implementation of the Net Stable Funding Ratio (NSFR).

May/June 2023

3. How is the gap or mismatch risk conceptually measured under the traditional gap analysis?
(A) By determining the variance between core retail deposits and all volatile market liabilities
(B) By calculating the spread between projected interest income and actual interest expenditures
(C) By calculating the mismatches between Rate Sensitive Liabilities (RSL) and Rate Sensitive Assets (RSA)
(D) By assessing the duration gap between long-term investment portfolios and short-term debt

Oct/Nov 2018

4. Consider the following statements regarding the share of large sized borrower accounts and identify the incorrect statement.
(A) Large sized borrower accounts are defined as having an exposure of ₹5 crore or more.
(B) Their share in total advances declined to 51 per cent at end-March 2021 from 54.2 per cent a year ago.
(C) Their contribution to total NPAs increased from 66.2 per cent to 75.4 per cent during the period ending March 2021.
(D) The special mention accounts-2 (SMA-2) ratio has risen across bank groups since the outbreak of the pandemic.

May/June 2007

5. What is the fundamental rationale behind banks adopting a Loan Review mechanism for large value accounts?
(A) To replace traditional gap analysis with modern techniques of interest rate risk and market measurement
(B) To evaluate loan administration, credit grading integrity, and the objectivity of loan loss provisions
(C) To delegate the approval of loan proposals beyond a pre-specified limit to a separate outside agency
(D) To track daily market movements involving normal and abnormal variations in foreign exchange rates

Oct/Nov 2025

6. When a bank is placed under the Prompt Corrective Action (PCA) framework, corrective actions may be prescribed. Which of the following is NOT listed as a potential restriction?
(A) Restriction on dividend distribution or remittance of profits
(B) Mandatory liquidation of all foreign subsidiaries within three months

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new institution became a dominant force in the financial system until its later transformation.

98. (B) Charles Goodhart
In the discussion regarding the structure of central banks, Charles Goodhart offered a specific perspective on collaboration. He argued that banking supervisors and those responsible for maintaining systemic stability must work closely together. According to his view, this cooperation is essential for a holistic understanding of financial risks and should occur regardless of whether these functions are physically co-located.

99. (D) Alan Greenspan
Alan Greenspan, a prominent figure in central banking, emphasized the necessity of maintaining certain powers during periods of financial evolution. He argued that the process of financial modernization should not be allowed to undermine the central bank's fundamental authority to manage crises. Furthermore, he believed that the central bank must retain its ability to assure the safety and efficiency of payments.

100. (B) 24,000
The 2017 merger of several associate banks and the Bhartiya Mahila Bank with the State Bank of India created a financial giant. Following this significant consolidation, the bank was projected to operate with a vast physical presence, reaching a branch network of approximately twenty-four thousand. This expansion solidified the institution's position as a major player with a massive reach across India.

NODIA

(B) Large borrowers shift to international financial markets while domestic retail borrowers rely heavily on microfinance.
(C) Industrial activity and investment constrain credit demand, while stressed balance sheets of banks limit credit supply.
(D) Increasing statutory pre-emptions absorb available liquidity while foreign portfolio investments decline.

May/June 2018

15. Banks face several types of risks that fall under the umbrella of market risk. Which of the following is NOT classified as a market risk?
(A) Interest rate risk
(B) Foreign exchange risk
(C) Equity price risk
(D) Reputation risk

Oct/Nov 2016

16. How is the capital ratio defined under the capital adequacy indicators of bank supervision?
(A) The ratio of capital to assets
(B) The ratio of tier-1 capital to total risk-weighted assets
(C) The ratio of equity to total outside liabilities
(D) The ratio of core capital to contingent liabilities

May/June 2014

17. Which of the following is an incorrect statement regarding the recommendations of the Expert Committee chaired by Shri K. V. Kamath?
(A) It recommended five financial parameters including total outside liability to adjusted tangible net worth.
(B) It recommended an absolute cap on the loan-to-value ratio for loans against gold ornaments at 50 per cent.
(C) It recommended sector-specific thresholds to act like floors or ceilings in respect of 26 sectors.
(D) It recommended considering the debt service coverage ratio (DSCR) for factoring into resolution plans.

Oct/Nov 2007

18. Which committee was constituted in 1991 to investigate issues related to banking and initiate wide-ranging financial sector reforms?
(A) M. Narasimham Committee
(B) K. V. Kamath Committee
(C) P. J. Nayak Panel
(D) National Credit Council

May/June 2025

19. Which of the following accurately describes the trend in Non-Performing Assets (NPAs) during 2020-21?
(A) The Gross NPA ratio of banks increased exponentially due to massive slippages in the agriculture sector.
(B) Private Sector Banks reported the highest ever accretions to NPAs, surpassing all Public Sector Banks combined.
(C) The proportion of standard assets to total advances declined sharply across all Scheduled Commercial Banks.
(D) The Gross NPA ratio continued its moderation, partly due to the specific asset classification standstill.

Oct/Nov 2019

20. Why did central banks globally unleash unconventional measures such as long-term repo operations (LTROs) during the pandemic?
(A) Because interest rates, the primary tool of monetary policy, had fallen to zero or the lower bound
(B) Because traditional stress testing at high frequencies became operationally unfeasible during the crisis
(C) Because aggregate micro-prudential indicators failed to reflect the true extent of operational risks
(D) Because commercial banks were unable to issue security receipts through asset reconstruction companies

May/June 2009

21. The composite Digital Payments Index (DPI) comprises five broad parameters. Which of the following is NOT one of these parameters?
(A) Payment enablers
(B) Payment infrastructure – demand-side factors
(C) Foreign exchange remittance velocity
(D) Consumer centricity

Oct/Nov 2011

22. In which year were specific powers to inspect banking companies granted to the Reserve Bank through an ordinance making prior consent unnecessary?

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(A) 1940
(B) 1946
(C) 1949
(D) 1957

May/June 2010

23. Why are macroeconomic indicators (MEIs) considered insufficient on their own for designing specific policies to preserve the stability of the banking system?
(A) They fail to capture the real economy factors such as fiscal developments and monetary policy shifts.
(B) They focus on aggregate micro-prudential indicators without accounting for global trade spillover effects.
(C) They are unable to measure the frequency distribution of capital ratios for the aggregate banking system.
(D) They do not throw adequate light on impending liquidity problems or the fragility of the banking system.

Oct/Nov 2024

24. Consider the following statements regarding the measurement of market risk and identify the incorrect statement.
(A) International banks have made considerable progress in adopting Value at Risk (VaR) and complex simulation models.
(B) The pre-commitment approach implies that each bank pre-commits to a maximum loss exposure over a designated horizon.
(C) The maximum loss commitment becomes the bank's market risk capital charge under the pre-commitment approach.
(D) The internal model's approach implies that capital charges are completely determined by a fixed set of walls that assign risk charges to specific portfolios.

May/June 2017

25. Which of the following correctly describes a feature of operational risk in banks?
(A) It arises solely from mismatched positions and dealings in public bonds and government securities.
(B) It requires sound management due to increased transaction volumes and complex technological systems.
(C) It is highly insurable and can be completely eliminated through the use of traditional gap analysis.
(D) It is quantified by subjecting off-balance sheet exposures to normal and abnormal movement variations.

Oct/Nov 2005

26. What essentially characterises operational risk within the framework of risk management in banks?
(A) Risks arising from mismatched maturity positions in public sector bonds and government securities
(B) Risks associated with a major financial institution disrupting the entire system in a short time
(C) Risks caused by credit rating upgrades, downgrades, and sudden defaults in the loan portfolio
(D) Risks shared with other entities, including product liability, business interruption, and technology failure

May/June 2020

27. The Expert Committee for the Resolution Framework for Covid-19 Stressed Assets recommended five financial parameters. Which of the following was NOT one of them?
(A) Return on Risk-Adjusted Capital (RORAC)
(B) Total outside liability/adjusted tangible net worth
(C) Current ratio
(D) Average debt service coverage ratio (ADSCR)

NODIA

Oct/Nov 2015

28. What is the limit of deposit insurance cover extended to depositors of commercial banks by the DICGC?
(A) ₹1 lakh
(B) ₹2 lakh
(C) ₹5 lakh
(D) ₹10 lakh

May/June 2013

29. Consider the following statements regarding developments following bank nationalization and identify the incorrect statement.
(A) The Central Government constituted the first Board of Directors for each of the nationalized banks on July 18, 1970.
(B) The Lead Bank Scheme was introduced in December 1969 to transform the banking

system as an instrument of social policy.
(C) The Reserve Bank advised newly nationalized banks to completely cease consulting it before sanctioning proposals requiring Board approval.
(D) The National Credit Council (NCC) suggested revisions to the branch licensing policy which were modified in May 1968.

Oct/Nov 2021

30. How does the leverage ratio (LR) function as a prudential requirement for banks?
(A) It mandates maintaining high quality liquid assets to meet 30 days' net outgo under stressed conditions.
(B) It ensures that total outside liabilities do not exceed the adjusted tangible net worth by a specific multiple.
(C) It requires banks to compute modified duration gap of assets and liabilities for each currency.
(D) It restricts the build-up of leverage by setting a ratio of tier-1 capital to total exposures.

May/June 2024

31. Arrange the issuance of the following regulatory guidelines/frameworks in correct chronological order:
I. Guidelines on Asset-Liability Management (ALM) System
II. Revised Prompt Corrective Action (PCA) framework (effective date)
III. Integrated Ombudsman Scheme
IV. Comprehensive guidelines on Risk Management Systems in Banks
(A) I, IV, III, II
(B) IV, I, II, III
(C) I, III, IV, II
(D) IV, III, I, II

Oct/Nov 2008

32. Identify the incorrect pair regarding the sectoral bank credit bright spots and slowdowns during 2020-21.
(A) Agriculture credit — Revived from a sharp deceleration of the previous year
(B) Retail credit by Private Sector Banks — Showed double-digit acceleration amidst falling NPA ratios
(C) Credit to large industries — Contracted
(D) Credit to medium-sized industries — Incentivised by the Emergency Credit Line Guarantee Scheme (ECLGS)

May/June 2006

33. What is the most appropriate rationale for linking Aggregate Micro-Prudential Indicators (AMPIs) with Macroeconomic Indicators (MEIs)?
(A) To eliminate the need for on-site inspections
(B) To arrive at macro-prudential indicators (MPIs) that discern financial stability concerns precisely
(C) To generate automated responses for Prompt Corrective Action triggers
(D) To substitute the traditional CAMELS rating framework

Oct/Nov 2017

34. Consider the following statements regarding Priority Sector Credit during 2020-21:
I. Priority sector lending accelerated primarily driven by a revival in credit to agriculture and micro and small enterprises.
II. The share of priority sector accounts in total Gross NPAs decreased from 40.5 per cent to 32.8 per cent.
Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

May/June 2008

35. Match the regulatory policies with their respective measures:
List I: (Regulatory Policy)
P. LTV Ratio for Gold Loans
Q. Ex-gratia Payment
R. Dividend Declaration
S. Marginal Standing Facility (MSF) Relaxation
List II: (Measure)
1. Directed banks not to make payments on equity shares from specific profits
2. Increased temporarily from 75 per cent to 90 per cent
3. Allowed dipping into SLR up to an additional one per cent of NDTL
4. Repayment of the difference between compound and simple interest up to ₹2 crore
(A) P-2, Q-4, R-1, S-3

NODIA

(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

May/June 2019

48. Match the components of the CAMELS supervisory framework with their corresponding indicators:
List I: (Supervisory Framework Component)
P. Capital Adequacy
Q. Asset Quality
R. Management Soundness
S. Liquidity
List II: (Indicators)
1. Earnings per Employee
2. Frequency distribution of capital ratios
3. Loans to deposits ratios
4. Sectoral credit concentration
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-1, Q-3, R-2, S-4
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2006

49. Identify the incorrect pair related to financial inclusion initiatives and their implementation timeline or agency.
(A) National Strategy for Financial Inclusion (NSFI) — 2019-2024
(B) Financial Inclusion Index (FI Index) — Introduced by NABARD in August 2021
(C) Trade Receivables Discounting System (TReDS) — Launched by the Reserve Bank in 2017
(D) Financial Inclusion Plans (FIPs) — Introduced by the Reserve Bank in 2010

May/June 2021

50. Match the broad parameters of the Digital Payments Index with their respective weights:
List I: (Digital Payments Index Parameter)
P. Payment Enablers
Q. Payment Infrastructure – Demand-side factors
R. Payment Performance
S. Consumer Centricity
List II: (Weight)
1. 45 per cent
2. 5 per cent
3. 25 per cent
4. 10 per cent
(A) P-1, Q-4, R-3, S-2
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2010

51. Consider the following statements regarding Capital Adequacy during 2020-21:
I. The CRAR of Scheduled Commercial Banks (SCBs) improved to reach 16.6 per cent at end-September 2021.
II. The number of banks breaching the regulatory minimum requirement of CRAR declined to one.
III. The accumulation of risk-weighted assets (RWAs) of both Public Sector Banks and Foreign Banks accelerated, causing a drop in capital ratios.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2007

52. Arrange the following banking sector developments in the chronological order of their occurrence:
I. Enactment of the Banking Regulation Act
II. Introduction of the Lead Bank Scheme
III. Nationalization of 14 major commercial banks
IV. Constitution of the Narasimham Committee on the Financial System
(A) I, II, III, IV
(B) I, III, II, IV
(C) III, I, II, IV
(D) I, IV, III, II

Oct/Nov 2022

53. Match the regulatory approaches to market risk with their corresponding characteristics:
List I: (Regulatory Approach)
P. Building Block Approach (BBA)
Q. Internal Model's Approach (IMA)
R. Pre-Commitment Approach (PCA)
S. Credit Metrics
List II: (Characteristics)
1. Capital charges are based on market risk estimates models like VAR multiplied by a scaling factor

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I. Long-term repo operations (LTROs) were undertaken to augment systemic liquidity and lower the banks' cost of funds.
II. A special liquidity facility for mutual funds (SLFMF) was crafted virtually over a weekend.
III. The cash reserve ratio (CRR) was permanently abolished to free up banks' resources.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2023

42. What is the ultimate objective of the Reserve Bank - Integrated Ombudsman Scheme launched in November 2021?
(A) To prosecute bank employees involved in high-value corporate frauds
(B) To centralize all inter-bank dispute resolutions regarding clearance and settlement systems
(C) To provide a hassle-free redressal mechanism for customers covering all service deficiencies
(D) To regulate the executive compensation of whole-time directors in private sector banks

Oct/Nov 2018

43. Identify the correct pair representing the data point related to the Deposit Insurance and Credit Guarantee Corporation (DICGC) as of March 31, 2021.
(A) Deposit cover limit — ₹10 lakh
(B) Reserve ratio — 1.70 per cent
(C) Claims processed during 2020-21 — ₹1,29,904 crore
(D) Fully protected depositors — 51.0 per cent

May/June 2012

44. Match the Anchor Bank with the corresponding banks that were merged into it:
List I: (Anchor Bank)
P. Punjab National Bank
Q. Canara Bank
R. Union Bank of India
S. Indian Bank
List II: (Merged Banks)
1. Syndicate Bank
2. Allahabad Bank
3. Oriental Bank of Commerce & United Bank of India
4. Corporation Bank & Andhra Bank
(A) P-4, Q-2, R-1, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-4, R-3, S-1
(D) P-1, Q-3, R-2, S-4

May/June 2005

45. Consider the following statements regarding off-balance sheet exposures and country risk:
I. Current and potential credit exposures on off-balance sheet items should be measured on a daily basis.
II. Potential exposures are quantified by subjecting the position to market movements involving both normal and abnormal variations.
III. Banks are advised to rely entirely on external rating agencies for assessing counter-party and country risks.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2009

46. Following the nationalization of 14 major commercial banks in 1969, why was a re-orientation of the system of bank inspections called for?
(A) Because foreign branches required independent audits under host country laws
(B) To align with the broader role assigned to banks and evaluate overall bank performance
(C) To prepare the public sector banks for immediate and large-scale privatization
(D) To ensure that banks only provided funding to large industrial corporate entities

Oct/Nov 2025

47. Consider the following statements regarding the credit-to-GDP ratio in India:
I. The credit-to-GDP ratio increased to a five-year high, widening the credit-GDP gap significantly.
II. India's credit-to-GDP ratio is markedly higher than the G20 average.

Which of the above statement(s) is/are correct?
(A) Only Statement I is correct

NODIA

(C) Restriction on branch expansion
(D) Appropriate restrictions on capital expenditure, other than for technological upgradation

May/June 2012

7. What does the acronym AMPI stand for in the context of prudential supervision?
(A) Average Macro-Prudential Indicators
(B) Aggregate Micro-Prudential Indicators
(C) Annual Monetary Policy Index
(D) Advanced Macro-Prudential Index

Oct/Nov 2014

8. Which of the following statements accurately describes the regulatory aftermath of the collapse of the Palai Central Bank in 1960?
(A) The Reserve Bank decided to dispense with the previous system of Annual Appraisal of bank operations.
(B) The Reserve Bank acquired new powers to enforce amalgamations and speedier de-licensing of banks.
(C) The Reserve Bank completely restricted the opening of foreign branches of Indian nationalized banks.
(D) The Reserve Bank introduced the concept of 'social control' to dilute concentrated ownership interests.

May/June 2019

9. Which of the following is NOT a prescribed Basel III Liquidity Return?
(A) Statement of liquidity coverage ratio (BLR 1)
(B) Statement of funding concentration (BLR 2)
(C) Statement of off-balance sheet foreign exchange derivatives (BLR 6)
(D) Statement of available unencumbered assets (BLR 3)

Oct/Nov 2006

10. From which date did the revised Prompt Corrective Action (PCA) framework for Scheduled Commercial Banks come into effect?
(A) August 6, 2020
(B) April 1, 2021
(C) October 1, 2021
(D) January 1, 2022

May/June 2021

11. During 2020, ten state-run banks were identified for mergers into four anchor banks. Which of the following anchor bank and merged bank combinations is NOT correct?
(A) Punjab National Bank merged with Oriental Bank of Commerce and United Bank of India
(B) Indian Bank merged with Allahabad Bank
(C) Union Bank of India merged with Corporation Bank and Andhra Bank
(D) State Bank of India merged with Dena Bank and Vijaya Bank

Oct/Nov 2010

12. How is a banking merger conceptually described in the context of commercial banking consolidation?
(A) A process where a central bank acquires the stressed assets of multiple scheduled commercial banks
(B) An arrangement where a non-banking financial company takes over the management of a commercial bank
(C) A process where two or more banks pool their assets and liabilities to come together under a single charter
(D) A regulatory intervention where the supervisory authority assumes the board powers of a failing bank

May/June 2005

13. Which statement correctly reflects the Reserve Bank's policy regarding dividend declaration by banks for the financial year 2019-20?
(A) Banks were directed not to make any dividend payment on equity shares from the profits of that year.
(B) Banks were mandated to declare a minimum dividend of 10 percent to support overall market capitalization.
(C) Banks were permitted to declare dividends only if their reported Net NPA ratio was exactly at zero.
(D) Banks were required to issue bonus shares in lieu of cash dividends to all participating shareholders.

Oct/Nov 2022

14. How does the 'scissors effect' explain the slowdown in credit growth registered by Scheduled Commercial Banks in recent years?
(A) Subdued household savings reduce deposit mobilization while high inflation increases operational expenditures.

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2. Each bank commits to a maximum loss exposure over a designated horizon
3. A set of walls that assign risk charges to specific assets or portfolios
4. A portfolio model that provides a statement of value-at-risk due to credit caused by upgrades, downgrades, and defaults

(A) P-2, Q-3, R-1, S-4
(B) P-3, Q-1, R-2, S-4
(C) P-1, Q-4, R-3, S-2
(D) P-4, Q-2, R-1, S-3

May/June 2018

54. Consider the following statements regarding the pricing of credit and investment risk:

I. Banks have been asked to adopt scientific methods to price risk, which should reflect the expected probability of defaults.
II. Evaluating portfolio quality should be done exclusively at the balance sheet date as it perfectly reveals the true quality of the Loan Book.

Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct
(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

Oct/Nov 2016

55. Identify the correct pair connecting the micro-prudential indicator category with its corresponding metric.
(A) Management Soundness — Growth in the number of financial institutions
(B) Borrowing Entity — Sovereign yield spreads
(C) Liquidity — Return on equity
(D) Capital Adequacy — Risk profile of Assets

May/June 2014

56. According to risk management guidelines, what is the primary responsibility of the Board of Directors of a bank?
(A) To lay down risk parameters and establish the risk management and control system
(B) To conduct day-to-day trading operations in the foreign exchange market
(C) To compute the modified duration gap on a daily basis
(D) To independently audit the internal control systems of rival banks

NODIA

Oct/Nov 2007

57. Consider the following statements regarding interest rate risk measurement:

I. The 1999 ALM guidelines introduced the Traditional Gap Analysis (TGA) from an 'earnings perspective'.
II. In November 2010, revised guidelines advised banks to manage interest rate risk using the duration gap analysis (DGA) in addition to TGA.
III. TGA is used to compute the sensitivity of the Market Value of Equity (MVE) under different scenarios.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2025

58. Match the Basel III Liquidity Returns with their descriptions:

List I: (Liquidity Return)
P. BLR 1
Q. BLR 2
R. BLR 3
S. BLR 5

List II: (Description)
1. Statement on other information on liquidity
2. Statement of available unencumbered assets
3. Statement of liquidity coverage ratio (LCR)
4. Statement of funding concentration

(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-2, R-4, S-1

Oct/Nov 2019

59. Consider the following statements regarding the inspection of banking companies:

I. The purpose of inspections shifted from a quantitative assessment of the real value of paid-up capital and reserves to a qualitative appraisal of financial position and management.
II. The policy of instituting systematic periodical inspections of all banking companies was first announced in July 1949.

Which of the above statement(s) is/are correct?
(A) Only Statement I is correct
(B) Only Statement II is correct

(C) Both Statement I and Statement II are correct
(D) Neither Statement I nor Statement II is correct

May/June 2009

60. Match the Digital Payment modes or initiatives with their specific features or purposes:
List I: (Digital Payment Mode/Initiative)
P. NEFT and RTGS
Q. PIDF
R. UPI
S. AePS
List II: (Feature/Purpose)
1. Subsidies provided to develop infrastructure in Tier-3 to Tier-6 centres
2. Made available 24x7x365 to reduce risks and enhance efficiency
3. Innovative payment system utilizing Aadhaar for contactless payments
4. Dominates the retail segment with a majority share in transaction volume
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2011

61. Consider the following statements regarding the salient features of comprehensive guidelines on Risk Management Systems issued in 1999:
I. Organizational Structure
II. Comprehensive Risk Measurement Approach
III. Complete outsourcing of the risk management framework to external rating agencies
IV. Well-laid out procedures and effective control
V. Periodical Review and Evaluation
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) I, II, III, and IV only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2010

62. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): The implementation of the last tranche of the capital conservation buffer (CCB) of 0.625 per cent was deferred till October 1, 2021.
Reason (R): The ongoing stress on account of COVID-19 on bank balance sheets necessitated a delay in its application to ease capital constraints.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

63. Consider the following statements regarding Enforcement Actions by the Reserve Bank:
I. The Enforcement Department was created in 2017 to separate enforcement action from the supervisory process.
II. During 2020-21, the number of instances of imposition of penalty increased dramatically.
III. Enforcement action was undertaken against 11 Scheduled Commercial Banks (SCBs) during 2020-21.
IV. Monetary penalties were imposed for contravention of directions including frauds classification and IRAC norms.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

May/June 2017

64. Bank Alpha uses aggregate micro-prudential indicators (AMPIs) to assess its inherent strength and regulatory compliance. The bank reviews several data points such as capital ratios, foreign currency denominated lending, expense ratios, and equity price risk to construct a holistic view of its operational safety.
When Bank Alpha evaluates its 'Expense ratios' and 'Earnings per Employee', which specific CAMELS category is it analyzing?
(A) Capital Adequacy
(B) Management Soundness
(C) Asset Quality

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(D) Liquidity

Oct/Nov 2005

65. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): By the middle of the 1980s, the massive expansion of bank branches had slowed down considerably.

Reason (R): The banking system entered a phase of consolidation, diversification, and liberalization, shifting focus to reviewing internal control systems and increasing the capital base.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

66. In response to economic disruption, Bank Delta applies the financial parameters recommended by the Expert Committee (Kamath Committee) for its corporate borrowers.

Which of the following is NOT one of the five recommended financial parameters?

(A) Capital to risk-weighted assets ratio (CRAR)
(B) Total debt to EBIDTA
(C) Current ratio
(D) Debt service coverage ratio (DSCR)

Oct/Nov 2015

67. Consider the following statements regarding the financial reform process in the 1990s:

I. The reforms were initiated following the problems that led to a decline in efficiency and profitability during the 1980s.
II. The Reserve Bank initiated deregulation of interest rates and reduction of statutory pre-emptions such as CRR and SLR.
III. Guidelines to facilitate the entry of private sector banks were issued in 1993 to foster greater competition.
IV. Directed investment and directed credit programs were recognized as having improved the operational efficiency of the banking system.

Which of the above statement(s) is/are correct?

(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2013

68. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): For Foreign Banks (FBs), the contribution of upgradation improved substantially in 2020 and was enough to entirely offset fresh slippages.

Reason (R): FBs reported increasing accretions to NPAs and deteriorating asset quality due to the amalgamation of a troubled private sector bank with a foreign bank.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2021

69. Bank Alpha uses aggregate micro-prudential indicators (AMPIs) to assess its inherent strength and regulatory compliance.

If Bank Alpha is specifically assessing its 'Sensitivity to Market Risk' as part of the AMPI framework, which of the following metrics must it review?

(A) Commodity price risk
(B) Sectoral credit concentration
(C) Indicators of excess yields
(D) Growth in the number of financial institutions

NODIA

May/June 2024

70. Consider the following statements regarding trends and regulations concerning Corporate Governance and Compensation in banks as of 2020-21:

I. Private Sector Banks (PVBs) have achieved a dominant presence of independent directors on their boards.

II. The share of PVBs where the Chair is not a member of an Audit Committee of the Board (ACB) increased to 47 per cent.
III. Bank CEOs in Public Sector Banks (PSBs) earn roughly 75 times the typical employee.
IV. The variable pay component of MRTs should be in the range of 50 to 75 per cent of the total pay.
V. A minimum of 60 per cent of the variable pay must be under deferral arrangements.

Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2008

71. Bank Epsilon, a Scheduled Commercial Bank, is struggling with high non-performing assets and inadequate capital buffers.
If Bank Epsilon breaches the risk thresholds and is placed under the PCA framework, which of the following mandatory corrective actions may be prescribed?
(A) Restriction on dividend distribution/ remittance of profits
(B) Immediate conversion of all debt into equity
(C) Compulsory amalgamation with a Public Sector Bank
(D) Complete cessation of all lending activities

May/June 2006

72. Consider the following statements regarding new bank branches and microfinance:
I. Opening of new bank branches moderated for the second consecutive year during 2020-21.
II. Banks shifted focus to leveraging the BC model and digitisation of banking operations.
III. The number of new branches opened by Scheduled Commercial Banks (SCBs) grew by 29.2 per cent in 2020-21.
IV. The SHG-BLP program has emerged as a major microfinance programme.

Which of the above statement(s) is/are correct?
(A) I, II, and IV only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2017

73. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): Under the revised Prompt Corrective Action (PCA) framework effective January 1, 2022, a negative return on assets (RoA) will automatically trigger the initiation of PCA.
Reason (R): The PCA framework applies to all banks operating in India, including foreign banks operating through branches or subsidiaries.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

74. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): Traditional gap analysis indicates that an institution is in a position to benefit from rising interest rates if it maintains a negative gap (RSL > RSA).
Reason (R): Gap analysis measures mismatches between Rate Sensitive Liabilities (RSL) and Rate Sensitive Assets (RSA) over different time intervals.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2013

75. In response to economic disruption, Bank Delta utilizes the Resolution Framework for Stressed Assets to support its corporate and retail borrowers.
Under the resolution framework announced in

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August 2020, within how many days did Bank Delta have to implement the resolution plan (RP) for eligible personal loans from the date of invocation?
(A) 30 days
(B) 90 days
(C) 180 days
(D) 365 days

May/June 2015

76. Consider the following statements regarding the management of market risk and interest rate risk:
I. The Basel Committee has proposed developing a capital charge for interest rate risk in the banking book for banks where the risk is significantly above average.
II. Changes in market rates affect the Economic Value of Equity through changes in the market value of banks' assets and liabilities.
III. A positive gap (RSA > RSL) indicates that an institution is in a position to benefit from declining interest rates.
IV. An internal Funds Transfer Price (FTP) mechanism can be evolved to supplement Asset-Liability Management.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2012

77. Bank Beta submits periodic returns to the regulator related to liquidity and interest rate risks.
While moving from traditional gap analysis (TGA) to duration gap analysis (DGA), what specific data point must Bank Beta include in its return to compute modified duration in each time band?
(A) The exact number of retail deposits acquired in the fortnight
(B) The expected probability of defaults for unrated corporate bonds
(C) The historical VaR limits observed over the previous twelve months
(D) The details of average coupon/yield on assets/liabilities used for computation

May/June 2011

78. Consider the following statements regarding objectives and impacts related to the Reserve Bank's guidelines for the Appointment of Auditors in Regulated Entities issued in April 2021:
I. Put in place ownership-neutral regulations
II. Ensure the independence of auditors
III. Avoid conflict of interest in auditors' appointments
IV. Shift the ultimate responsibility of audit exclusively to the central government
V. Improve the quality and standards of audit in the Regulated Entities
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2020

79. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): During the 2020 pandemic, central banks worldwide unleashed unconventional measures such as expanding balance sheets to support economic activity.
Reason (R): The conventional policy tool of interest rate cuts was exhausted as rates had fallen to zero, considered the lower bound.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

80. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): The persistent weak bank credit growth in recent years reflects a scissors effect in the economy.
Reason (R): Industrial activity and investment

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coverage?
(A) It applies only to electronic transactions that exceed a value of ₹1 lakh.
(B) It covers all services except those mentioned in the specific exclusion list.
(C) It is limited exclusively to grievances pertaining to ATM and debit card transactions.
(D) It only applies to registered customers residing in metropolitan urban areas.

May/June 2021

92. During 2020-21, the supervisory authority noted changes in the pattern of banking frauds and undertook specific enforcement actions to ensure compliance. Bank Theta is under scrutiny for non-compliance with IRAC norms and delayed fraud reporting.
In terms of the amount involved, an overwhelming majority of fraud cases reported across the banking sector during 2020-21 related to which operational area?
(A) Internet banking transactions
(B) Card transactions at Point of Sale
(C) Advances
(D) Off-balance sheet foreign exchange contracts

Oct/Nov 2010

93. Analysts review the consolidated balance sheet of Scheduled Commercial Banks (SCBs) for 2020-21.
What notable structural shift occurred in the maturity bucket of more than five years for SCBs during this period?
(A) The negative gap widened significantly as banks attracted exclusively short-term wholesale funding instruments.
(B) Both assets and liabilities matched perfectly resulting in a zero gap across most public sector bank groups.
(C) The positive gap doubled due to a massive influx of foreign currency non-resident deposits from retail investors.
(D) The positive gap turned negative as banks attracted fewer short-term CASA deposits and more longer-term deposits.

May/June 2005

94. In a bid to revamp the banking system and create global, robust, and well-funded banking majors, a mega-merger of 10 Public Sector Undertaking banks into four anchor banks was executed.
As part of this consolidation, Oriental Bank of Commerce and United Bank of India were amalgamated with which anchor bank?
(A) Canara Bank
(B) Union Bank of India
(C) Punjab National Bank
(D) Indian Bank

Oct/Nov 2022

95. The transition towards a 'less cash' society has accelerated. A fintech researcher evaluates the Digital Payments Index (DPI) to study the deepening of digital payments and the success of centralized payment systems like RTGS and NEFT.
Within the composite Digital Payments Index (DPI), what weightage is assigned to the 'Payment infrastructure – supply-side factors' parameter?
(A) 5 per cent
(B) 10 per cent
(C) 15 per cent
(D) 25 per cent

NODIA

May/June 2018

96. Analysts review the consolidated balance sheet of Scheduled Commercial Banks (SCBs) for the year 2020-21.
During the 2020-21 period, how did Private Sector Banks (PVBs) adjust their reliance on borrowings compared to Public Sector Banks (PSBs)?
(A) PVBs completely replaced their deposits with short-term money market borrowings.
(B) Borrowings of PVBs contracted for the first time since 2016-17.
(C) PVBs heavily increased their short-term borrowings, matching the acceleration seen in PSBs.
(D) PVBs relied entirely on borrowings from the central bank under the MSF window.

Oct/Nov 2016

97. A retail customer faces issues with an electronic banking transaction and files a complaint through the Integrated Ombudsman Scheme. Concurrently, the banking system's stability is reinforced by the Deposit Insurance Fund (DIF). As part of protecting small depositors, the insurance cover was extended in recent years.

May/June 2007

86. Consider the following statements regarding ATMs and Consumer Protection:

I. The densely populated urban and metropolitan areas accounted for a majority share in total SCBs' ATMs at end-March 2021.

II. ATMs of Public Sector Banks (PSBs) were highly concentrated in rural areas compared to other bank groups.

III. A majority of white label ATMs (WLAs) were concentrated in rural and semi-urban areas.

IV. Almost all pension-related complaints were filed against PSBs.

Which of the above statement(s) is/are correct?

(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

Oct/Nov 2025

87. Bank Gamma tracks non-performing loans near the balance sheet date to assess portfolio quality. Why is this considered inadequate by the regulator?

(A) Because it fails to account for off-balance sheet exposures such as interest rate derivatives
(B) Because it lacks continuous borrower migration tracking required to reveal true book quality
(C) Because it ignores the immediate calculation of the Liquidity Coverage Ratio (LCR) standards
(D) Because it overestimates the Economic Value of Equity in a scenario of declining interest rates

May/June 2012

88. Consider the following observations pertaining to the Microfinance Programme and Financial Inclusion during 2020-21:

I. SHGs' savings with banks increased by 43.3 per cent.

II. Loans outstanding with banks for SHGs declined by 4.4 per cent.

III. Micro-credit disbursements to Joint Liability Groups (JLGs) expanded by over 30 per cent.

IV. The NPA ratio of SHGs continued to improve from the previous years.

V. BC outlets constituted more than 95 per cent of the total banking outlets in villages.

Which of the above statement(s) is/are correct?

(A) I, II, III, and V only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2018

89. Bank Alpha uses aggregate micro-prudential indicators (AMPIs) to assess its inherent strength and regulatory compliance. The bank reviews several data points such as capital ratios, foreign currency denominated lending, expense ratios, and equity price risk to construct a holistic view of its operational safety.

When Bank Alpha evaluates its 'Expense ratios' and 'Earnings per Employee', which specific CAMELS category is it analyzing?

(A) Capital Adequacy
(B) Management Soundness
(C) Asset Quality
(D) Liquidity

May/June 2019

90. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.

Assertion (A): The Reserve Bank permitted banks to exceed the HTM ceiling up to an overall limit of 22 per cent of NDTL till March 31, 2023.

Reason (R): The headroom available for banks for further investment in SLR securities under the HTM category got exhausted by June 2020 amid a large government borrowing programme.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

91. A customer files a complaint through the Integrated Ombudsman Scheme. This scheme covers all areas of 'deficiency in services' rendered by regulated entities.

What is the explicit boundary condition for this

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constrained credit demand, while stressed balance sheets of banks limited credit supply.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

81. Bank Epsilon, a Scheduled Commercial Bank, is struggling with high non-performing assets and inadequate capital buffers. The supervisory authority reviews the bank's financials based on the revised Prompt Corrective Action (PCA) framework.
Under the revised PCA framework assessing Bank Epsilon, which of the following indicators will NO longer be tracked as a trigger to initiate PCA?
(A) Common Equity Tier 1 Ratio
(B) Net NPA Ratio
(C) Negative return on assets (RoA)
(D) Tier 1 Leverage Ratio

May/June 2016

82. Consider the following statements regarding prudential requirements for bank supervision:
I. Capital adequacy norms
II. Asset classification procedures and methods
III. Income recognition principles
IV. Market valuation of assets
V. Recovery mechanisms to reduce non-performing assets
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2014

83. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): Following the closure of the Palai Central Bank, the Reserve Bank acquired new powers to enforce amalgamations and speedier de-licensing of banks.
Reason (R): The collapse of the Palai Central Bank and Laxmi Commercial Bank in 1960 alerted the Reserve Bank to the need to improve the inspection of banks and detect frauds.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

84. Bank Beta submits periodic returns to the regulator related to liquidity and interest rate risks. It has integrated standard ALM guidelines and subsequent Basel III liquidity standards to maintain strong governance.
Under the Basel III Liquidity Returns that Bank Beta is required to submit, which specific return corresponds to the 'Statement of funding concentration'?
(A) BLR 1
(B) BLR 2
(C) BLR 3
(D) BLR 4

Oct/Nov 2009

85. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Examine these two statements carefully and select the correct answer.
Assertion (A): Retail loan portfolios of banks outgrew their services sector lending during 2020-21.
Reason (R): There was a double-digit acceleration in housing loans and vehicle loans gained traction after companies announced substantial discounts.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

What is the maximum amount of deposits covered by insurance per depositor?
(A) ₹1 lakh
(B) ₹2 lakh
(C) ₹5 lakh
(D) ₹10 lakh

May/June 2014

98. The transition towards a 'less cash' society has accelerated. A fintech researcher evaluates the Digital Payments Index (DPI) to study the deepening of digital payments and the success of centralized payment systems like RTGS and NEFT.
What is the base period utilized for computing the Digital Payments Index (DPI) semi-annually?
(A) March 2016
(B) March 2018
(C) March 2020
(D) January 2021

Oct/Nov 2007

99. During 2020-21, the supervisory authority noted changes in the pattern of banking frauds and undertook specific enforcement actions to ensure compliance. To handle instances like Bank Theta's non-compliance objectively, the regulator utilizes its Enforcement Department.
In which year was this department created to separate enforcement action from the supervisory process?
(A) 2015
(B) 2017
(C) 2019
(D) 2021

May/June 2025

100. From a strategic and regulatory perspective, what is considered a primary merit of the mega-merger of Public Sector Banks for the anchor bank?
(A) It allows the consolidated bank to completely bypass Basel III capital adequacy requirements.
(B) It eliminates all Non-Performing Assets from the balance sheet of the surviving consolidated bank.
(C) It exempts the newly merged entity from all future contributions to the national Deposit Insurance Fund.
(D) It increases the capital base, enabling the bank to satisfy higher lending and project requirements.

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ANSWERS

1. (B) July 19, 1969
On July 19, 1969, the Indian government nationalized fourteen major commercial banks. This historic decision aimed to redirect credit toward priority sectors like agriculture and small industries, reducing the concentration of economic power. It transformed the banking landscape, transitioning from class banking to mass banking, ensuring financial services reached rural areas across the entire country for everyone.

2. (C) The positive gap in the long-term bucket turned negative as banks attracted more long-term deposits.
During the 2020-21 period, the maturity profile of assets and liabilities in scheduled commercial banks experienced a notable shift. Specifically, the positive gap previously seen in the long-term maturity bucket transitioned into a negative gap. This change occurred as banks successfully attracted more long-term deposits, which altered the structural balance of their asset-liability management frameworks significantly during that year.

3. (C) By calculating the mismatches between Rate Sensitive Liabilities (RSL) and Rate Sensitive Assets (RSA)
Traditional gap analysis identifies interest rate risk by measuring the mismatch between rate-sensitive assets and rate-sensitive liabilities over specific time horizons. This technique helps financial institutions assess how fluctuations in market interest rates might impact net interest income. By quantifying these differences, banks can implement effective hedging strategies to stabilize their financial performance against volatile economic conditions and market changes.

4. (C) Their contribution to total NPAs increased from 66.2 per cent to 75.4 per cent during the period ending March 2021.
Large borrower accounts, defined by exposures of five crore rupees or more, saw a decline in their share of total advances by March 2021. While their contribution to non-performing assets remained significant, the specific claim of an increase to seventy-five percent is inaccurate. Instead, asset quality across these accounts reflected broader trends of moderation and targeted resolution efforts.

5. (B) To evaluate loan administration, credit grading integrity, and the objectivity of loan loss provisions
A loan review mechanism serves as an independent evaluation tool for large-value accounts within a bank. Its primary function is to assess the integrity of credit grading, the effectiveness of loan administration, and the objectivity of provisioning. This internal process ensures that the credit portfolio remains healthy and that potential risks are identified and mitigated early by the financial institution.

6. (B) Mandatory liquidation of all foreign subsidiaries within three months
The Prompt Corrective Action framework allows regulators to impose various restrictions on banks facing financial distress. Common measures include limits on dividend distributions, branch expansions, and non-essential capital expenditures. However, the mandatory liquidation of all foreign subsidiaries within a short three-month window is not a standard requirement under this framework, as actions are typically tailored to institutional recovery.

7. (B) Aggregate Micro-Prudential Indicators
Aggregate Micro-Prudential Indicators represent a collection of metrics used to monitor the health and stability of the banking system. These indicators analyze factors like capital adequacy, asset quality, management soundness, earnings, and liquidity across financial institutions. By examining these data points collectively, regulators can identify emerging systemic risks and implement timely policies to maintain overall financial stability and safety.

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8. (B) The Reserve Bank acquired new powers to enforce amalgamations and speedier de-licensing of banks.
The collapse of the Palai Central Bank in 1960 prompted significant regulatory changes in India. The Reserve Bank gained enhanced authority to enforce bank amalgamations and streamline the de-licensing of failing institutions. These measures were designed to protect depositors and strengthen the banking structure by weeding out weak entities and fostering a more resilient and consolidated financial environment.

9. (C) Statement of off-balance sheet foreign exchange derivatives (BLR 6)
Basel III liquidity standards require banks to submit specific regulatory returns to ensure they maintain sufficient liquidity buffers. These include statements on the liquidity coverage ratio, funding concentration, and available unencumbered assets. While off-balance sheet items are monitored, a specific return labeled BLR 6 for foreign exchange derivatives is not part of the standard set of liquidity filings required.

10. (D) January 1, 2022
The revised Prompt Corrective Action framework for scheduled commercial banks became effective on January 1, 2022. This updated framework introduced refined triggers and indicators, such as the Net NPA ratio and Tier 1 Leverage Ratio, to monitor bank health. Its implementation aimed to ensure early intervention by the regulator when banks demonstrate signs of financial or operational weakness during operations.

11. (D) State Bank of India merged with Dena Bank and Vijaya Bank
In 2020, the Indian government executed a significant consolidation of state-run banks. While major mergers involved Punjab National Bank, Indian Bank, and Union Bank of India, the pairing of State Bank of India with Dena Bank and Vijaya Bank is incorrect. In reality, Bank of Baroda was the anchor bank that absorbed Dena Bank and Vijaya Bank much earlier.

12. (C) A process where two or more banks pool their assets and liabilities to come together under a single charter
A banking merger is a strategic consolidation process where two or more financial institutions combine their assets and liabilities. This action results in the entities coming together under a single legal charter and management structure. Such mergers are often pursued to achieve economies of scale, improve capital efficiency, and create larger, more competitive organizations within the national financial system.

13. (A) Banks were directed not to make any dividend payment on equity shares from the profits of that year.
For the financial year 2019-20, the Reserve Bank directed commercial banks to refrain from paying dividends on equity shares. This cautious approach was taken to ensure that banks conserved capital to absorb potential losses and support credit flow during the economic uncertainty caused by the global pandemic. It prioritized the stability of the banking sector over immediate shareholder returns.

14. (C) Industrial activity and investment constrain credit demand, while stressed balance sheets of banks limit credit supply.
The scissors effect describes a situation where credit growth slows due to simultaneous pressures on both demand and supply. In the Indian context, subdued industrial activity and reduced investment have constrained the demand for new loans. Simultaneously, the stressed balance sheets of banks, burdened by non-performing assets, have limited their capacity and willingness to supply fresh credit to borrowers.

15. (D) Reputation risk
Market risk encompasses the potential for financial loss due to movements in market prices. Key components include interest rate risk, foreign exchange risk, and equity price risk, as these directly affect the valuation of bank portfolios. In contrast, reputation risk is considered an operational or qualitative risk, as it relates to public perception rather than direct market price fluctuations themselves.

16. (A) The ratio of capital to assets
In the context of banking supervision, the capital ratio is fundamentally defined as the proportion of a bank's capital to its total assets. This indicator serves as a primary measure of financial strength and solvency, showing how much of the bank's activities are funded by its own resources

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68. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Foreign banks did see a substantial improvement in asset quality during 2020, with upgradations offsetting new slippages. Separately, there were instances of increased NPAs in the sector due to specific bank amalgamations. However, the overall improvement in foreign bank portfolios was driven by general recovery trends rather than being a direct consequence of a specific private bank's amalgamation.

69. (A) Commodity price risk
Under the aggregate micro-prudential indicator framework, sensitivity to market risk specifically focuses on how market price fluctuations affect a bank. Metrics in this category include risks related to foreign exchange, equity prices, and commodity prices. Evaluating commodity price risk is a standard part of assessing how exposed an institution's portfolio is to volatile market movements beyond just interest rate changes.

70. (A) I, II, IV, and V only
Recent trends show private banks have high independent director representation. New rules state that a majority of variable pay must be deferred and that the variable component should be at least fifty percent of total pay, making the specific range of fifty to seventy-five percent inaccurate. However, the claim regarding PSB CEOs earning seventy-five times the typical employee remains incorrect, as this disparity is typically seen in private banks.

71. (A) Restriction on dividend distribution/ remittance of profits
When a bank is placed under the Prompt Corrective Action framework, several mandatory restrictions are triggered to conserve capital and reduce risk. One of the most common and essential actions is the restriction on dividend distributions or the remittance of profits. This ensures that the bank's earnings are retained to strengthen its balance sheet and improve its overall financial health.

72. (A) I, II, and IV only
During 2020-21, the opening of physical bank branches slowed as institutions increasingly relied on digital operations and the business correspondent model. Microfinance also played a key role through programs like the SHG-Bank Linkage Project. The suggestion that new branch openings grew by nearly thirty percent is incorrect, as the trend was actually toward moderation and digital transformation across banks.

73. (D) Assertion (A) is false, but Reason (R) is true.
Under the revised Prompt Corrective Action framework effective in 2022, a negative return on assets is no longer used as a primary trigger for PCA. Instead, the focus is on capital, asset quality, and leverage. However, the framework does apply broadly to all commercial banks operating in India, including the local branches or subsidiaries of foreign financial institutions during their operations.

74. (D) Assertion (A) is false, but Reason (R) is true.
Traditional gap analysis measures the difference between rate-sensitive assets and rate-sensitive liabilities. While it is a standard tool, the assertion that a negative gap allows an institution to benefit from rising interest rates is incorrect. In fact, a negative gap typically makes an institution vulnerable to rising rates, as its funding costs would increase more than its interest income.

75. (B) 90 days
Under the resolution framework introduced in August 2020, banks were required to implement resolution plans for eligible personal loans within ninety days of the date of invocation. This timeline was established to ensure a swift and disciplined approach to managing borrower stress while providing necessary relief to individuals impacted by the economic disruptions of the pandemic during that year.

76. (B) I, II, and IV only
Effective risk management involves developing capital charges for significant interest rate risk in the banking book and recognizing how market rates affect equity value. Utilizing internal funds transfer pricing can further support these efforts. However, the claim that a positive gap benefits an institution during declining interest rates is wrong; a positive gap actually benefits from rising interest rates.

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determined by a fixed set of walls is conceptually incorrect.

25. (B) It requires sound management due to increased transaction volumes and complex technological systems.
Operational risk is a critical concern for modern banks due to the increasing volume of transactions and the growing complexity of technological systems. It involves the risk of loss resulting from inadequate or failed internal processes, people, and systems. Proper management of this risk is essential for maintaining operational resilience and ensuring that digital and manual workflows remain secure and efficient always.

26. (D) Risks shared with other entities, including product liability, business interruption, and technology failure
Operational risk encompasses a wide range of non-financial risks that can disrupt a bank's activities. This includes risks related to technology failure, business interruption, and product liability. Unlike market or credit risk, operational risk is often shared with external entities or results from internal system failures. Effective risk management frameworks must account for these diverse factors to prevent significant institutional losses.

27. (A) Return on Risk-Adjusted Capital (RORAC)
The Kamath Committee specified five key financial ratios to be considered for debt resolution plans. These included the current ratio, debt service coverage ratio, and total outside liability to tangible net worth. While these metrics focused on liquidity and solvency, Return on Risk-Adjusted Capital was not among the mandatory parameters prescribed for the Covid-19 stressed asset resolution framework during that time.

28. (C) ₹5 lakh
The Deposit Insurance and Credit Guarantee Corporation provides a safety net for depositors in commercial banks. Currently, the insurance cover is capped at five lakh rupees per depositor, per bank. This limit includes both the principal and interest amounts. This protection is designed to maintain public confidence in the banking system, particularly for small depositors during times of bank failure.

29. (C) The Reserve Bank advised newly nationalized banks to completely cease consulting it before sanctioning proposals requiring Board approval.
Following the nationalization of fourteen major banks, the Reserve Bank maintained a close supervisory and advisory relationship with these institutions. The claim that banks were advised to completely cease consulting the Reserve Bank before sanctioning major proposals is incorrect. In fact, regulatory oversight remained intensive to ensure that the newly nationalized banks aligned with the government's social and economic objectives.

30. (D) It restricts the build-up of leverage by setting a ratio of tier-1 capital to total exposures.
The leverage ratio serves as a non-risk-based prudential requirement designed to restrict the excessive build-up of leverage in the banking sector. It is calculated as the ratio of Tier 1 capital to the bank's total exposures. By setting a minimum threshold for this ratio, regulators ensure that banks maintain a solid capital base relative to their total balance sheet size.

31. (A) I, IV, III, II
Regulatory developments followed a specific timeline to strengthen the banking sector. Asset-Liability Management guidelines were introduced first in the late 1990s, followed by comprehensive risk management system guidelines. More recently, the Integrated Ombudsman Scheme was launched in 2021, and the effective date for the revised Prompt Corrective Action framework followed at the start of January 2022 across banks.

32. (B) Retail credit by Private Sector Banks — Showed double-digit acceleration amidst falling NPA ratios
During the 2020-21 fiscal year, credit patterns shifted across different sectors. While agriculture credit revived and large industry credit contracted, the performance of retail credit by private sector banks was more nuanced. The assertion that they saw double-digit acceleration alongside falling NPA ratios is incorrect, as retail credit growth actually moderated for these banks compared to previous high-growth years.

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33. (B) To arrive at macro-prudential indicators (MPIs) that discern financial stability concerns precisely
Linking aggregate micro-prudential indicators with macroeconomic indicators allows regulators to develop comprehensive macro-prudential indicators. These combined metrics provide a more precise view of financial stability by showing how individual bank health interacts with broader economic trends. This holistic approach is essential for identifying systemic risks that could threaten the entire financial system rather than just isolated institutions.

34. (A) Only Statement I is correct
Priority sector lending saw growth in 2020-21, largely driven by increased credit to the agriculture and small enterprise sectors. However, the share of priority sector accounts in total Gross Non-Performing Assets did not decrease to the extent suggested. In fact, credit quality in certain segments remained under pressure, making the second statement regarding a significant NPA share decline inaccurate.

35. (A) P-2, Q-4, R-1, S-3
Various regulatory measures were implemented to support the economy during the pandemic. The LTV ratio for gold loans was temporarily raised to ninety percent, while an ex-gratia scheme covered the difference between compound and simple interest. Banks were also restricted from paying equity dividends, and the marginal standing facility was relaxed to allow more flexibility in using liquidity reserves.

36. (B) I and III only
Resolution Framework 2.0, introduced in May 2021, targeted individuals and small businesses with an aggregate exposure limit of fifty crore rupees. Unlike earlier frameworks, it allowed for the implementation of resolution plans without a mandatory downgrade in asset classification, provided the accounts were standard. Therefore, the statement regarding a mandatory downgrade is incorrect in this specific context and timeframe.

37. (A) To facilitate the creation of a banking structure that caters to the nascent economy embarking on planned economic growth
During the 1950s, the primary objective of bank regulation and supervision was to build a robust financial structure capable of supporting India's planned economic development. The focus was on ensuring that banks could provide the necessary credit to support emerging industries and agriculture. This period laid the institutional foundation for the banking system's role in the nation's broader growth.

38. (A) P-4, Q-1, R-3, S-2
In 2020-21, SCB financial performance was marked by specific trends. Total income remained stable due to higher investment income, while expenditure contracted as interest paid on deposits fell. This led to improved profitability through wider interest spreads. Additionally, banks frontloaded their provisioning in early 2020, which significantly strengthened their provision coverage ratios for the subsequent fiscal year ending March.

39. (A) Only Statement I is correct
Following nationalization, the Reserve Bank implemented a three-year perspective plan for branch expansion from 1972 to 1974. This plan focused on increasing the reach of banking services. Contrary to the second statement, both the government and the central bank actively promoted the opening of rural offices to achieve social objectives, rather than seeking to slow down rural expansion efforts.

40. (B) P-2, Q-1, R-4, S-3
Aggregate micro-prudential indicators are categorized into specific components of bank health. Systems and controls focus on audit and inspection compliance, while earnings and profitability are measured by Return on Assets. Sensitivity to market risk evaluates factors like equity price risk, and market-based indicators look for external signals of stress, such as indicators of excess yields in the market.

41. (A) I and II only
The Reserve Bank utilized unconventional measures like long-term repo operations and a special liquidity facility for mutual funds to maintain financial stability during the pandemic. These actions successfully augmented systemic liquidity and lowered borrowing costs. However, the cash reserve ratio was not permanently abolished; it was temporarily reduced to provide

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relief but remains a standard monetary policy tool.

42. (C) To provide a hassle-free redressal mechanism for customers covering all service deficiencies
The Integrated Ombudsman Scheme aims to simplify the grievance redressal process for bank customers by providing a single point of reference. It covers all deficiencies in services rendered by regulated entities, moving away from a restricted list of specific complaints. This customer-centric initiative ensures a more efficient, transparent, and accessible mechanism for resolving disputes between financial institutions and their clients.

43. (B) Reserve ratio — 1.70 per cent
As of March 31, 2021, the Deposit Insurance and Credit Guarantee Corporation reported a reserve ratio of 1.70 percent. During this period, the insurance cover limit was five lakh rupees, and the vast majority of depositors—over ninety-eight percent—were fully protected. The reserve ratio is a key indicator of the fund's adequacy in meeting potential claims from failed banks.

44. (B) P-3, Q-1, R-4, S-2
The 2020 bank mergers consolidated several institutions into larger entities. Punjab National Bank absorbed Oriental Bank of Commerce and United Bank of India. Canara Bank merged with Syndicate Bank, while Union Bank of India took over Corporation Bank and Andhra Bank. Finally, Indian Bank merged with Allahabad Bank, significantly reducing the number of public sector banks in operation.

45. (A) I and II only
Banks must measure off-balance sheet exposures daily, accounting for both normal and abnormal market variations to manage potential risks. While external ratings are useful, banks are encouraged to maintain their own internal assessment processes for counter-party and country risks. Relying entirely on external agencies is discouraged, as institutions should have robust independent risk management capabilities to ensure safety.

46. (B) To align with the broader role assigned to banks and evaluate overall bank performance
The nationalization of banks in 1969 necessitated a shift in how the Reserve Bank conducted inspections. Beyond just checking capital and reserves, inspections were re-oriented to evaluate the qualitative aspects of bank performance and management. This change ensured that banks were effectively fulfilling their expanded role as instruments of social policy and supporting the government's economic development goals for the country.

47. (D) Neither Statement I nor Statement II is correct
India's credit-to-GDP ratio has remained relatively low compared to international benchmarks. It did not reach a five-year high or widen significantly during the period in question. Furthermore, India's ratio is considerably lower than the G20 average, reflecting a different stage of financial deepening and the specific challenges of credit supply and demand in the domestic economy during recent years.

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48. (A) P-2, Q-4, R-1, S-3
The CAMELS framework uses diverse indicators to assess bank health. Capital adequacy is monitored through the frequency distribution of capital ratios, while asset quality looks at sectoral credit concentration. Management soundness is often measured by earnings per employee, and liquidity is assessed using ratios such as loans to deposits, ensuring the bank can meet its obligations during normal and stressed times.

49. (B) Financial Inclusion Index (FI Index) — Introduced by NABARD in August 2021
Various initiatives have been launched to promote financial inclusion in India, including the National Strategy for Financial Inclusion and the Trade Receivables Discounting System. However, the Financial Inclusion Index (FI Index) was introduced by the Reserve Bank of India, not NABARD, in August 2021. This index provides a comprehensive measure of the extent of financial inclusion across the entire country.

50. (B) P-3, Q-4, R-1, S-2
The Digital Payments Index weights its parameters according to their importance in the ecosystem. Payment performance carries the highest weight at forty-five percent, while payment enablers account for twenty-five percent. Demand-side infrastructure is assigned ten percent, and consumer centricity is given five

compared to debt. It is essential for ensuring institutional stability.

17. (B) It recommended an absolute cap on the loan-to-value ratio for loans against gold ornaments at 50 per cent.
The KV Kamath Committee recommended specific financial parameters and sector-specific thresholds for resolving Covid-related stress. While it focused on debt service coverage and tangible net worth ratios, it did not set a fifty percent cap on the loan-to-value ratio for gold loans. Regulatory changes for gold loans generally involved increasing limits to provide relief rather than such restrictive caps.

18. (A) M. Narasimham Committee
The M. Narasimham Committee, established in 1991, played a pivotal role in initiating wide-ranging financial sector reforms in India. Its recommendations focused on enhancing the efficiency and profitability of banks through deregulation, reducing statutory pre-emptions, and introducing capital adequacy norms. These reforms laid the groundwork for a modern, competitive, and globally aligned banking system in the country for decades.

19. (D) The Gross NPA ratio continued its moderation, partly due to the specific asset classification standstill.
During the 2020-21 period, the Gross Non-Performing Asset ratio of scheduled commercial banks continued its downward trend. This moderation was assisted by improved recovery efforts and the regulatory standstill on asset classification implemented during the pandemic. These factors collectively helped stabilize the reported health of bank loan portfolios despite the significant economic challenges faced during the global health crisis.

20. (A) Because interest rates, the primary tool of monetary policy, had fallen to zero or the lower bound
Central banks globally turned to unconventional tools like long-term repo operations during the pandemic because traditional monetary policy reached its limits. With interest rates already at or near the zero lower bound, further cuts were no longer effective. These operations provided banks with durable liquidity at low costs, ensuring that the financial system remained functional and credit continued flowing.

21. (C) Foreign exchange remittance velocity
The Digital Payments Index is a composite measure used to track the growth of digital transactions. It is built upon five pillars: payment enablers, demand-side infrastructure, supply-side infrastructure, payment performance, and consumer centricity. Foreign exchange remittance velocity is not a parameter of this index, as the DPI focuses specifically on the domestic ecosystem of digital payment adoption and infrastructure.

22. (B) 1946
In 1946, an ordinance granted the Reserve Bank specific powers to inspect banking companies without requiring their prior consent. This was a critical step in strengthening the central bank's supervisory role, allowing for more proactive and independent oversight. It enabled the regulator to better assess the financial health of banks and protect the interests of depositors more effectively than before.

23. (D) They do not throw adequate light on impending liquidity problems or the fragility of the banking system.
Macroeconomic indicators provide a broad view of the economy but are often insufficient for targeted banking policy. They fail to reveal specific internal vulnerabilities like impending liquidity shortages or the underlying fragility of individual financial institutions. To maintain banking stability, regulators must combine these broad indicators with detailed micro-prudential data that captures the specific risks and health of banks.

24. (D) The internal model's approach implies that capital charges are completely determined by a fixed set of walls that assign risk charges to specific portfolios.
The internal models approach for market risk allows banks to use their own sophisticated Value at Risk calculations to determine capital charges, subject to regulatory approval. In contrast, the standardized approach uses a fixed set of risk weights or walls for specific portfolios. Therefore, describing the internal models approach as being

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move toward more sophisticated, comprehensive, and exam-oriented regulatory oversight.

60. (A) P-2, Q-1, R-4, S-3
Digital payment initiatives serve distinct purposes. NEFT and RTGS operate 24x7 to enhance efficiency, while the PIDF subsidizes infrastructure in underserved areas. UPI has become the dominant mode for retail transaction volumes. Meanwhile, the Aadhaar-enabled Payment System provides an innovative, contactless method for making payments, particularly benefiting those in rural areas with limited traditional banking access across India.

61. (A) I, II, IV, and V only
The 1999 risk management guidelines for banks emphasized a comprehensive internal framework. Key features included a strong organizational structure, sophisticated risk measurement approaches, effective control procedures, and regular reviews. However, the guidelines did not advocate for the complete outsourcing of the risk management framework to external agencies, as banks are expected to maintain internal ownership of their risks and controls.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The implementation of the final tranche of the capital conservation buffer was indeed deferred until October 2021. This decision was a direct response to the economic stress caused by the pandemic. By delaying the requirement for higher capital buffers, the regulator aimed to ease capital constraints and ensure that banks could continue lending to support the economic recovery.

63. (B) I, III, and IV only
The Enforcement Department was established in 2017 to separate the enforcement process from regular supervision. During 2020-21, the Reserve Bank took action against eleven scheduled commercial banks, imposing monetary penalties for various violations, including issues with fraud classification and asset classification norms. The claim that the number of penalties increased dramatically is not supported by the official data.

64. (B) Management Soundness
In the CAMELS supervisory framework, expense ratios and earnings per employee are used as indicators of management soundness. These metrics reflect how efficiently the bank's leadership utilizes resources and personnel to generate revenue. High operational efficiency and low cost-to-income ratios are generally associated with a capable and effective management team within a financial institution during its regular operations.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The rapid expansion of bank branches seen in the 1970s slowed down by the mid-1980s. This shift occurred because the banking system entered a phase of consolidation. The focus moved from simply increasing physical reach to improving internal control systems, strengthening the capital base, and diversifying services, reflecting a transition toward a more mature and stable financial sector.

66. (A) Capital to risk-weighted assets ratio (CRAR)
The Kamath Committee recommended five specific financial parameters for the resolution of Covid-19 stressed assets: total debt to EBITDA, current ratio, debt service coverage ratio, average debt service coverage ratio, and total outside liability to tangible net worth. Capital adequacy, measured by the CRAR, is a broad regulatory requirement and was not one of the five specific borrower-level parameters recommended.

67. (A) I, II, and III only
The 1990s reforms were a response to the inefficiencies and low profitability of the previous decade. The Reserve Bank reduced statutory pre-emptions and deregulated interest rates to foster a more market-driven environment. While private sector banks were introduced to increase competition, directed credit programs were actually criticized for contributing to inefficiencies rather than being recognized as having improved them.

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percent. These weights reflect a focus on actual transaction results and the underlying enablers of digital adoption today.

51. (A) I and II only
In 2020-21, the capital ratios of scheduled commercial banks improved, with the CRAR reaching sixteen point six percent by September 2021. The number of banks failing to meet minimum regulatory capital requirements also decreased significantly. Contrary to the third statement, capital ratios generally strengthened because capital infusions and retained earnings outpaced the growth in risk-weighted assets during that period.

52. (B) I, III, II, IV
The Banking Regulation Act was enacted in 1949, followed by the nationalization of fourteen major banks in 1969. The Lead Bank Scheme was introduced shortly after in late 1969 to drive rural development. Finally, the Narasimham Committee was constituted in 1991 to address systemic inefficiencies and recommend comprehensive financial sector reforms for a modern and competitive economy.

53. (B) P-3, Q-1, R-2, S-4
Market risk approaches vary in complexity. The building block approach uses fixed risk charges for specific assets. The internal models approach allows banks to use their own VAR models with a scaling factor. The pre-commitment approach requires banks to set a maximum loss limit. CreditMetrics is a portfolio model used to value risk resulting from credit rating changes and sudden defaults.

54. (A) Only Statement I is correct
Regulators emphasize that banks should adopt scientific methods to price risk based on the expected probability of default. This ensures that interest rates reflect the true risk profile of borrowers. However, evaluating portfolio quality solely at the balance sheet date is insufficient; continuous monitoring and tracking of borrower migration are necessary to capture the true, evolving quality of the loan book.

55. (D) Capital Adequacy — Risk profile of Assets
Under the micro-prudential indicator framework, the 'risk profile of assets'—defined as the ratio of risk-weighted assets to total assets—is classified as an indicator of asset quality rather than capital adequacy. While capital requirements are derived from these risks, the framework maintains this distinction to provide a clearer view of asset-side vulnerabilities. This categorization is a standard part of risk-based supervision and the broader Basel capital standards applied globally.

56. (A) To lay down risk parameters and establish the risk management and control system
The Board of Directors holds the ultimate responsibility for risk management within a bank. Their primary role is to establish the overarching risk parameters and ensure that a robust risk management and control system is in place. While they delegate daily operations to management, the board must provide strategic oversight to ensure all institutional risks are identified and effectively mitigated.

57. (A) I and II only
Traditional gap analysis was introduced in 1999 to manage interest rate risk from an earnings perspective. Later, in 2010, the duration gap analysis was added to provide an economic value perspective. While traditional gap analysis focuses on net interest income, it is the duration gap analysis—not TGA—that is specifically used to compute the sensitivity of the market value of equity.

58. (A) P-3, Q-4, R-2, S-1
Basel III reporting includes several standardized returns. BLR 1 provides the statement of the liquidity coverage ratio, while BLR 2 reports on funding concentration. BLR 3 is used for available unencumbered assets, and BLR 5 captures other essential information regarding liquidity. These returns allow regulators to monitor the short-term and structural liquidity positions of banks consistently across the whole sector.

59. (C) Both Statement I and Statement II are correct
In 1949, the Reserve Bank announced a policy of systematic periodical inspections for all banking companies. Over time, the purpose of these inspections evolved from a simple quantitative check of capital and reserves to a more qualitative appraisal of a bank's financial position and management quality. This transition reflected a

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77. (D) The details of average coupon/yield on assets/liabilities used for computation
Transitioning from traditional gap analysis to duration gap analysis requires more granular data to calculate the timing and size of cash flows. Banks must provide details of the average coupon or yield for their various assets and liabilities within each time band. This information is critical for computing the modified duration, which measures the sensitivity of market value to interest rate changes.

78. (B) I, II, III, and V only
The 2021 auditor guidelines were designed to improve audit quality and standards across all regulated entities. They aimed to ensure auditor independence, prevent conflicts of interest, and create a set of ownership-neutral regulations. The responsibility for audits remains with the boards and management of the entities rather than being shifted exclusively to the central government for oversight purposes.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Central banks globally expanded their balance sheets and used unconventional tools during the pandemic to provide necessary liquidity. This was essential because the standard policy of cutting interest rates had reached its limit, with rates at the zero lower bound. These extraordinary measures were required to support economic activity and prevent a complete freeze of the global financial system.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The persistent slowdown in bank credit growth is characterized as a scissors effect in the economy. This occurs because credit demand is constrained by weak industrial activity and investment, while credit supply is restricted by the stressed balance sheets of banks. These two opposing forces have worked together to keep credit expansion at relatively low levels in recent years.

81. (C) Negative return on assets (RoA)
The revised Prompt Corrective Action framework, which took effect in early 2022, removed the return on assets as a primary trigger for regulatory intervention. The framework now focuses more sharply on indicators related to capital adequacy, asset quality, and leverage. This change was intended to simplify the framework and focus on the most critical factors of financial solvency and institutional safety.

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82. (D) I, II, III, IV, and V
Banking supervision relies on a comprehensive set of prudential requirements to ensure institutional stability. This includes maintaining capital adequacy, following strict asset classification and income recognition principles, and valuing assets at market prices. Additionally, having effective recovery mechanisms to manage and reduce non-performing assets is a vital component of a well-regulated and resilient banking system for any country.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The failure of the Palai Central Bank and Laxmi Commercial Bank in 1960 highlighted significant weaknesses in the existing supervisory system. This led the Reserve Bank to acquire stronger powers to enforce amalgamations and de-license weak banks. These changes were aimed at improving the oversight of banks and ensuring that potential frauds or mismanagement could be detected much earlier.

84. (B) BLR 2
Under the Basel III liquidity reporting framework, banks must submit several specific returns to the regulator. The statement of funding concentration is captured in the return labeled BLR 2. This report helps the regulator assess how much a bank relies on a small number of funding sources, which can be a significant risk factor during periods of market stress.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Retail loan portfolios saw significant growth during 2020-21, outpacing lending to the services sector. This trend was driven by a strong performance in housing and vehicle loans. Consumers took advantage of substantial discounts from companies and low interest rates, leading to a double-digit acceleration in these

specific segments despite the broader economic challenges of the period ending March.

86. (B) I, III, and IV only
Urban and metropolitan areas continue to hold the majority share of commercial bank ATMs. While white label ATMs are concentrated in rural and semi-urban areas to improve access, public sector bank ATMs are not specifically concentrated in rural regions. Additionally, a significant majority of pension-related complaints are directed at public sector banks, reflecting their large role in government payments.

87. (B) Because it lacks continuous borrower migration tracking required to reveal true book quality
Regulators consider tracking non-performing loans only near the balance sheet date to be inadequate for a true assessment of risk. A comprehensive view requires continuous monitoring of borrower migration across different credit categories. This ongoing tracking reveals the underlying health of the loan book and identifies deteriorating accounts before they become formal defaults, allowing for more proactive risk management actions.

88. (B) I, II, IV, and V only
In 2020-21, SHG savings with banks grew significantly while their outstanding loans slightly declined. The NPA ratio for these groups improved, and business correspondent outlets remained the primary means of providing banking access in villages. However, micro-credit disbursements to joint liability groups did not expand by thirty percent, as microfinance activity faced significant disruptions during the pandemic years.

89. (B) Management Soundness
Evaluating expense ratios and earnings per employee is a standard method for assessing management soundness under the CAMELS framework. These metrics show how effectively a bank's leadership manages operational costs and leverages its human capital to generate profit. Consistent performance in these areas indicates that the bank is being run efficiently and that the management team is highly capable.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Reserve Bank allowed banks to increase their Held to Maturity investments in SLR securities to twenty-two percent of NDTL. This was necessary because many banks had already exhausted their previous headroom by mid-2020. This relaxation enabled banks to absorb the large volume of government borrowings required to fund pandemic relief measures without facing immediate mark-to-market losses.

91. (B) It covers all services except those mentioned in the specific exclusion list.
The Integrated Ombudsman Scheme provides a broad scope of coverage for customer grievances, defined simply as any deficiency in service. Instead of listing every covered issue, the scheme covers all services rendered by regulated entities, with the exception of a few specifically excluded items. This approach ensures that most customer complaints can be addressed through a single, streamlined mechanism.

92. (C) Advances
While digital and card-based frauds are frequent in terms of the number of cases, the overwhelming majority of the total amount involved in banking frauds relates to advances. These cases often involve large-value corporate loans where funds are diverted or misrepresented. Improving the monitoring and audit of the credit portfolio remains the most critical task for reducing fraud-related losses.

93. (D) The positive gap turned negative as banks attracted fewer short-term CASA deposits and more longer-term deposits.
In the 2020-21 period, the more than five years maturity bucket for scheduled commercial banks underwent a structural shift. The previously positive gap in this category turned negative. This occurred because banks successfully attracted more long-term deposits while the growth of long-term assets was less pronounced. This change reflects a shift in the overall duration and funding profile.

94. (C) Punjab National Bank
As part of the major consolidation of state-run banks in 2020, Oriental Bank of Commerce and

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United Bank of India were amalgamated with Punjab National Bank. This merger created one of the largest public sector banks in India. The goal of such consolidations was to create stronger institutions with larger capital bases, improved operational efficiencies, and a wider footprint.

95. (C) 15 per cent
The Digital Payments Index evaluates the payment ecosystem using various weighted parameters. While payment performance and enablers hold the highest weights, supply-side infrastructure is assigned a fifteen percent weight. This parameter measures the availability and growth of physical and digital points of sale, such as card machines and QR code deployments, which are essential for digital transaction adoption today.

96. (B) Borrowings of PVBs contracted for the first time since 2016-17.
In 2020-21, private sector banks adjusted their funding strategies, leading to a contraction in their total borrowings for the first time since 2016-17. This was partly due to robust deposit growth, which reduced the need for market-based funding. Unlike some public sector banks that utilized special liquidity windows, private banks relied more on their internal resources and strong deposit bases.

97. (C) ₹5 lakh
Every depositor in a commercial bank is protected by insurance provided by the DICGC. The maximum coverage amount is currently set at five lakh rupees per depositor, per bank. This amount covers the combined total of all savings, fixed, and current accounts held by an individual. This protection is a critical component of the financial safety net for small depositors.

98. (B) March 2018
The Digital Payments Index was created with a base period of March 2018, where the index value was set at one hundred. Since its inception, the index has been computed semi-annually to track the progress of digital payment adoption across India. It provides a benchmark to measure how effectively the country is transitioning toward a more digitized and less-cash-dependent economy.

99. (B) 2017
The Reserve Bank established a dedicated Enforcement Department in 2017. The primary goal of this move was to separate the process of identifying regulatory violations from the process of identifying regulatory violations from the process of imposing penalties. By creating this distinction, the regulator ensured a more objective, transparent, and rigorous approach to enforcing compliance across all scheduled commercial banks and other regulated financial entities in the country.

100. (D) It increases the capital base, enabling the bank to satisfy higher lending and project requirements.
A primary benefit of the mega-mergers for anchor banks is the significant increase in their capital base. This expanded financial capacity allows the consolidated entities to satisfy much larger lending requirements and support major infrastructure projects. Furthermore, it helps create banks of global scale that can compete more effectively while benefiting from improved operational efficiencies and combined resources across units.

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of the Reserve Bank for cooperatives
(C) To emphasize the developmental and promotional role assigned in addition to refinancing
(D) To regulate the primary agricultural credit societies at the state level

Oct/Nov 2010

13. Consider the following statements about the grading system introduced for UCBs in April 2003:
I. It is based on the Capital to Risk (Weighted) Assets Ratio (CRAR).
II. It considers the level of net NPAs.
III. It evaluates the record of losses.
IV. It monitors compliance with the regulatory environment.
V. It was immediately replaced by the CAMELS model in all UCBs without a transition phase.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, and V only

May/June 2005

14. Which of the following is the most appropriate reason for the appointment of a High-Power Committee under K. Madhava Rao in 1999?
(A) To nationalize large-scale urban cooperative banks across India
(B) To mandate the compulsory amalgamation of all non-scheduled UCBs into commercial banks
(C) To review the performance of UCBs and suggest necessary measures to strengthen the urban banking sector
(D) To transfer the regulatory authority of UCBs entirely to the respective State Governments

Oct/Nov 2022

15. Identify the incorrect statement regarding the incentives extended to an amalgamating cooperative bank by the central regulator.
(A) The bank is granted greater flexibility to close loss-making branches.
(B) The bank is permitted to open new branches in areas of operations.
(C) The bank is allowed to retain the authorised dealer (AD)-1 licence of the amalgamated bank.
(D) The bank is completely exempted from maintaining the Statutory Liquidity Ratio (SLR) for five years.

May/June 2018

16. Arrange the following institutional developments in the flow of credit to agriculture and allied sectors in the correct chronological order:
I. Creation of the Agricultural Refinance Corporation (ARC)
II. Nationalisation of major banks
III. Setting up of NABARD
IV. Establishment of Regional Rural Banks (RRBs)
(A) I, II, IV, III
(B) I, IV, II, III
(C) II, I, IV, III
(D) II, IV, I, III

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Oct/Nov 2016

17. Consider the following statements regarding the powers granted to the Reserve Bank of India under the amended Section 45 of the BR Act, 1949:
I. It enables the RBI to reconstruct or amalgamate a bank.
II. This reconstruction or amalgamation can be done with or without implementing a moratorium.
III. The approval of the respective State Government is mandatory instead of the Central Government.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2014

18. A financial analyst is reviewing the flow of institutional credit to agriculture. According to the data for the year 2019-20, which of the following best represents the market share of co-operative banks in agricultural credit?
(A) 76.8 per cent
(B) 28.7 per cent
(C) 11.9 per cent
(D) 11.3 per cent

May/June 2007

6. Which of the following is an ongoing initiative for cooperative banks as part of the implementation goals for 2020-21?
(A) Transferring the supervisory authority of DCCBs from NABARD directly to the State Governments.
(B) Speeding up the resolution of weak UCBs which are under All-Inclusive Directions (AID).
(C) Reversing the statutory provisions applied by the Banking Regulation (Amendment) Act, 2020.
(D) Preventing any further mergers or amalgamations in the UCB sector.

Oct/Nov 2025

7. What represents the product of both evolution and intervention, symbolizing a response to the stimuli from the continuing requirement and speedy delivery of rural credit?
(A) The decentralised credit planning mechanism
(B) The agricultural credit system
(C) The urban cooperative banking framework
(D) The supervisory reporting framework

May/June 2012

8. Match the regulatory interventions implemented for Urban Cooperative Banks (UCBs) with their corresponding periods of introduction:
List I: (Regulatory Intervention)
P. Supervisory reporting system for scheduled UCBs
Q. Introduction of capital adequacy norms in a phased manner
R. Complete ban on grant of loans and advances to directors and their relatives
S. Simplified CAMELS rating for non-scheduled UCBs
List II: (Period of Introduction)
1. March 2002
2. October 2003
3. March 2004
4. March 2001
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2014

9. Identify the correct pair connecting the legal section of the amended Banking Regulation Act, 1949, with its corresponding provision:
(A) Section 3 – Enables the regulator to supersede the Board of Directors of a co-operative bank
(B) Section 3 – Makes the provisions of the Act inapplicable to Primary Agricultural Credit Societies
(C) Section 45 – Narrows down the regulatory arbitrage between commercial banks and co-operative banks
(D) Section 56 – Grants UCBs the authority to deal in non-SLR securities without due diligence

May/June 2019

10. Identify the incorrect statement regarding the market share trends in institutional credit to agriculture between 2012-13 and 2019-20.
(A) The share of co-operative banks experienced a decline.
(B) The share of commercial banks moved up considerably.
(C) The share of Regional Rural Banks (RRBs) witnessed a sharp reduction.
(D) The overall credit flow indicated a directional change in rural credit.

Oct/Nov 2006

11. An expert committee on UCBs was set up in February 2021 to examine the prospects of consolidation in the UCB sector. What inherent characteristic of many UCBs was cited as a hindrance to the process of mergers and consolidation?
(A) They are heavily dependent on foreign direct investment.
(B) They lack basic core banking solutions.
(C) They operate strictly in metropolitan cities.
(D) They are community or region-based.

May/June 2021

12. Which of the following statements correctly describes the mandate of the Agricultural Refinance Corporation (ARC) upon its renaming to Agricultural Refinance and Development Corporation (ARDC) in 1975?
(A) To solely provide direct credit to the rural sector bypassing cooperatives
(B) To assume the entire refinancing functions

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May/June 2017

26. Match the following institutions/schemes with the year of their establishment/introduction:
List I: (Institution/Scheme)
P. All-India Rural Credit Survey
Q. Agricultural Refinance Corporation (ARC)
R. Agricultural Refinance and Development Corporation (ARDC)
S. Regional Rural Banks (RRBs)
List II: (Year)
1. 1975
2. 1954
3. 1975
4. 1963
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-2, S-3

Oct/Nov 2005

27. Bank X and Bank Y, both UCBs, are undergoing an amalgamation. According to regulatory directions issued on March 23, 2021, the proposal for amalgamation must be approved by what majority of the board members of the concerned UCB?
(A) Simple majority
(B) Absolute majority
(C) Two-thirds majority
(D) Three-fourths majority

May/June 2020

28. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The 'duality of control' over cooperative institutions has historically been a contentious issue hindering functional autonomy.
Reason (R): A Task Force on Cooperative Credit System (1999) recommended removing the overlap of controls and drawing up an Action Plan to redefine the roles of the State Government, Reserve Bank, NABARD, and cooperative institutions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2015

29. A State Co-operative Bank (StCB) is assessing its compliance with the amended provisions of the Banking Regulation Act, 1949. From which date did the amendment come into force for State Co-operative Banks and District Central Co-operative Banks?
(A) June 29, 2020
(B) December 31, 2020
(C) March 23, 2021
(D) April 1, 2021

May/June 2013

30. An auditor is reviewing the regulatory history of an Urban Cooperative Bank (UCB). The failure of which specific institution brought to the fore the urgent need for stringent regulatory control over the cooperative banking system and led to the extension of the Off-site Surveillance System (OSS)?
(A) National Cooperative Finance and Development Corporation
(B) Agricultural Refinance and Development Corporation
(C) Any district central cooperative bank
(D) Madhavpura Mercantile Cooperative Bank

NODIA

Oct/Nov 2021

31. As part of the institutional agenda for cooperative banks in 2021-22, the National Co-operative Finance and Development Corporation Ltd. was incorporated. What is its structural and legal format?
(A) A government-owned statutory body under a special Act of Parliament
(B) A non-government private limited company under the Companies Act 2013
(C) A non-government public limited company under the Companies Act 2013
(D) A cooperative society registered under the Multi-State Co-operative Societies Act

May/June 2024

32. Bank Delta, a Tier 3 UCB, is planning its capital raising efforts to comply with the revised CRAR guidelines. If it currently has a CRAR of 9.5%, what is the immediate regulatory benchmark it must hit by March 31, 2024?
(A) 9 per cent
(B) 10 per cent

Oct/Nov 2007

19. Which of the following accurately defines the rationale behind the amendment to the Banking Regulation (BR) Act, 1949, carried out in 2020?
(A) To decentralize control and delegate full authority to the Registrar of Cooperative Societies.
(B) To exempt state cooperative banks from the purview of capital adequacy norms.
(C) To allow primary agricultural credit societies to issue cheques as authorized banking entities.
(D) To protect depositors' interests and improve governance and oversight by the central regulator.

May/June 2025

20. The Off-site Surveillance System (OSS) was extended to all non-scheduled UCBs having a specific minimum deposit size. What is this threshold limit?
(A) Rs. 50 crore and above
(B) Rs. 100 crore and above
(C) Rs. 500 crore and above
(D) Rs. 1,000 crore and above

Oct/Nov 2019

21. Bank A, a cooperative bank, is undergoing consultation for the implementation of a Supervisory Action Framework (SAF). With which institution is the draft SAF for State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs) being consulted?
(A) Securities and Exchange Board of India (SEBI)
(B) Ministry of Cooperation
(C) National Bank for Agriculture and Rural Development (NABARD)
(D) Indian Banks' Association (IBA)

May/June 2009

22. The principle of supervision formulated and implemented by the Reserve Bank of India under the Banking Regulation Act, 1949, does NOT apply to which of the following entities?
(A) Urban cooperative banks and local area banks
(B) Primary agricultural credit societies and land development banks
(C) State cooperative banks and regional rural banks
(D) District central cooperative banks and urban cooperative banks

Oct/Nov 2011

23. Which Task Force was appointed in August 2004 to examine the issues relating to an appropriate regulatory framework for rural cooperative banking institutions?
(A) Task Force under K. Madhava Rao
(B) Task Force under Jagdish Capoor
(C) Task Force under Y.V. Reddy
(D) Task Force under A Vaidyanathan

May/June 2010

24. A cooperative society providing long-term finance for agricultural development wants to include the word "bank" in its name and act as a drawee of cheques. Under the amended Section 3 of the BR Act, 1949, which of the following applies to this society?
(A) It can act as a drawee of cheques if it obtains a license from NABARD.
(B) It is allowed to function as a full-fledged commercial bank under dual control.
(C) It can retain the word "bank" provided it stops providing long-term agricultural finance.
(D) It is explicitly prohibited from using the words "bank", "banker", or "banking" in its name.

Oct/Nov 2024

25. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): Since the 1950s, the central banking authority has strived to achieve harmonization of efforts in regulating rural finance.
Reason (R): Harmonizing efforts with other regulatory authorities accelerates the flow of credit to rural areas and paves the way for regulating the institutional structure on lines similar to commercial banks.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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CHAPTER 15

Development, Regulation and Supervision of Co-operative Banks

NODIA

Oct/Nov 2011

1. Consider the following statements regarding the rural credit structure:

I. The three-tier rural cooperative credit institutions consist of Primary Agricultural Credit Societies, District Central Cooperative Banks, and State Cooperative Banks.

II. Local area banks and branches of commercial banks are excluded from the widespread network of rural financial institutions.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2023

2. According to the regulatory Vision Document (2005), what was the primary future course of action envisaged for UCBs?

(A) To completely eliminate all cooperative structures and convert them into listed joint-stock companies.
(B) To place all existing urban cooperative banks under the direct regulatory control of NABARD and its affiliates.
(C) To remove operational irritants, address dual control, and align their regulatory framework with commercial banks.
(D) To mandate the immediate amalgamation of all small UCBs into larger regional rural bank entities.

Oct/Nov 2009

3. Section 54 of the Reserve Bank of India Act, 1934, specifically authorized the creation of which of the following departments within the Reserve Bank?

(A) Urban Banks Department
(B) Rural Planning and Credit Department
(C) Agricultural Credit Department
(D) Co-operative Bank Supervision Department

May/June 2016

4. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): The amalgamation process for UCBs is expected to be smoother and faster following the enactment of the Banking Regulation (Amendment) Act, 2020.

Reason (R): The Reserve Bank received greater powers for sanctioning the process of amalgamation, replacing the previous requirement of approval from both the RBI and the respective Registrar of Co-operative Societies.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

5. Consider the following statements regarding the measures directed towards strengthening Urban Cooperative Banks (UCBs) since March 31, 1993:

I. Applicability of capital adequacy standards.
II. Prescribing an asset-liability management framework.
III. Restricting bank finance against the security of corporate shares and debentures.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

(C) 11 per cent
(D) 12 per cent

Oct/Nov 2008

33. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The timeline for furnishing returns under Section 31 of the BR Act, 1949 (AACS) for the financial year ended March 31, 2020, was extended till December 31, 2020.
Reason (R): Cooperative banks faced severe difficulties in the submission of returns due to the COVID-19 pandemic.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

34. Bank Gamma is evaluating its compliance with FSWM norms. Consider the following conditions:
I. Net NPA of not more than 3%
II. No CRR/SLR default in the preceding financial year
III. At least three professional directors on the Board
IV. CRAR at least 1 percentage point above the minimum applicable
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2017

35. A salary earners' UCB holds total deposits of Rs. 150 crore as per the audited balance sheet of the immediate preceding financial year. Under the four-tiered regulatory framework, into which tier will this UCB be categorized?
(A) Tier 1
(B) Tier 2
(C) Tier 3
(D) Tier 4

May/June 2008

36. Consider the following statements about the regulatory environment of cooperatives:
I. Primary agricultural credit societies are completely under the regulatory purview of the Reserve Bank of India.
II. The Banking Laws (as Applicable to Cooperative Societies) Act came into force from March 1, 1966.
III. State cooperative banks (SCBs) are a part of the three-tier rural cooperative credit structure.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2013

37. Consider the following statements about System-Based Asset Classification for UCBs:
I. It aims to improve the efficiency, transparency, and integrity of the asset classification process.
II. It was mandated for all UCBs irrespective of their total asset size.
III. UCBs with total assets of Rs. 2,000 crore or above as on March 31, 2020, were advised to implement it.
IV. The effective date for implementation was June 30, 2021.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

May/June 2015

38. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): UCBs which currently do not meet the minimum net worth requirement must achieve the entire stipulated minimum net worth on or before March 31, 2028.
Reason (R): The regulator allows a phased approach, requiring such UCBs to achieve at least 50 per cent of the applicable minimum net worth on or before March 31, 2026.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

39. Consider the profitability criteria for a UCB to be classified as Financially Sound and Well Managed (FSWM). Which of the following conditions must be satisfied?
(A) Net profit for at least two out of the preceding three years regardless of the immediate year's results.
(B) Net profit consecutively for each of the preceding five financial years based on the audited report.
(C) Operating profit in the immediate preceding year with no regard for the final net loss or gain.
(D) Net profit for three out of preceding four years, excluding a net loss in the immediate preceding year.

May/June 2011

40. Identify the incorrect pair regarding the regulatory agenda and entities involved:
(A) Voluntary Amalgamation – BR (Amendment) Act, 2020
(B) Draft SAF for StCBs and DCCBs – Consultation with NABARD
(C) Discussion Paper on Consolidation – Expert committee on UCBs
(D) Umbrella Organisation (UO) for UCBs – Registered office in New Mumbai

Oct/Nov 2020

41. Match the committees/task forces with their primary area of focus/recommendation:
List I: (Committee/Task Force)
P. Committee of Direction (1954)
Q. Task Force under Jagdish Capoor (1999)
R. Task Force under A Vaidyanathan (2004)
S. High-Power Committee under K. Madhava Rao (1999)
List II: (Primary Focus/Recommendation)
1. Appropriate regulatory framework for rural cooperative banking institutions
2. Recommended the creation of National Agricultural Credit Fund
3. Suggested necessary measures to strengthen the urban banking sector
4. Suggested removal of overlap of controls to endow functional autonomy
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

May/June 2022

42. Consider the following statements concerning loans and advances to directors and their relatives by UCBs as advised on February 5, 2021:
I. UCBs are permitted to renew existing loans to directors if the board unanimously approves.
II. Directors or their relatives cannot stand as surety/guarantor to loans sanctioned by UCBs.
III. The restriction applies to firms/companies in which the directors or their relatives are interested.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2023

43. Match the transitional capital adequacy milestones for Tier 2 to Tier 4 UCBs with their respective deadlines:
List I: (Capital Adequacy Milestone)
P. Achieve CRAR of at least 10 per cent
Q. Achieve CRAR of 11 per cent
R. Achieve CRAR of 12 per cent
S. Achieve at least 50 per cent of applicable minimum net worth
List II: (Deadline)
1. March 31, 2026
2. March 31, 2024
3. March 31, 2025
4. March 31, 2026
(A) P-2, Q-3, R-1, S-4
(B) P-3, Q-2, R-4, S-1
(C) P-1, Q-4, R-2, S-3
(D) P-2, Q-3, R-4, S-1

NODIA

May/June 2016

44. Consider the following statements regarding the transition of a UCB to a higher Tier:
I. The transition is triggered by an increase in deposits in any year.

II. The deposits are reckoned as per the audited balance sheet as on 31st March of the immediate preceding year.
III. A glide path of up to a maximum of three years may be provided to comply with higher regulatory requirements.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

Oct/Nov 2009

45. Identify the correct pair representing the statutory body and the year it took over the entire refinancing functions of the Agricultural Refinance and Development Corporation (ARDC).
(A) Reserve Bank of India - 1935
(B) Regional Rural Banks - 1975
(C) NABARD - 1982
(D) State Government - 1966

May/June 2023

46. A UCB possesses total assets of Rs. 1,500 crore as of March 31, 2020. It has self-assessed itself at Level III based on its digital depth. By what date was this UCB advised to implement the "Comprehensive Cyber Security Framework for UCBs"?
(A) December 31, 2019
(B) August 12, 2020
(C) September 30, 2021
(D) March 31, 2022

Oct/Nov 2018

47. Identify the incorrect statement regarding the criteria for determining the FSWM status of UCBs.
(A) The bank must have fully implemented the Core Banking Solution (CBS).
(B) Net NPA should be less than 5%.
(C) No monetary penalty should have been imposed on the bank during the last two financial years.
(D) The CRAR must be at least 1 percentage point above the minimum applicable CRAR.

May/June 2007

48. The National Co-operative Finance and Development Corporation Ltd., set up as an Umbrella Organisation for UCBs, is required to apply for a certificate of registration as what type of entity?
(A) Small Finance Bank
(B) Non-Banking Financial Company (NBFC)
(C) Local Area Bank
(D) Primary Dealer

Oct/Nov 2025

49. All of the following are criteria for determining the Financially Sound and Well Managed (FSWM) status of a UCB EXCEPT:
(A) CRAR exactly equal to the minimum applicable regulatory requirement.
(B) Net NPA not exceeding the maximum threshold of 3 per cent.
(C) Core Banking Solution (CBS) fully implemented across the bank.
(D) No default in CRR or SLR maintenance during the preceding year.

May/June 2012

50. Which of the following correctly defines the minimum net worth requirement for a Tier 1 UCB operating exclusively in a single district?
(A) Rs. 1 crore
(B) Rs. 2 crore
(C) Rs. 5 crore
(D) Rs. 10 crore

Oct/Nov 2014

51. An academic studying the Indian financial system notes the dual control over cooperative banking institutions. Which entities historically shared this dual control before recent amendments?
(A) SEBI and RBI
(B) Ministry of Finance and NABARD
(C) Commercial Banks and State Governments
(D) Reserve Bank of India and the Registrar of Co-operative Societies

NODIA

May/June 2019

52. Which legal provisions strictly govern the Master Direction issued on March 23, 2021, laying down the process for the voluntary amalgamation of two or more UCBs?
(A) Section 45 read with Section 56 of the BR Act, 1949
(B) Section 17 of the RBI Act, 1934
(C) Section 3 read with Section 31 of the BR Act, 1949
(D) Section 44A read with Section 56 of the BR

Act, 1949

Oct/Nov 2006

53. Match the regulatory tiers of Urban Co-operative Banks (UCBs) with their respective deposit criteria as per the Revised Regulatory Framework:

List I: (Regulatory Tier)

P. Tier 1
Q. Tier 2
R. Tier 3
S. Tier 4

List II: (Deposit Criteria)

1. Deposits more than Rs. 1,000 crore and up to Rs. 10,000 crore
2. Deposits more than Rs. 10,000 crore
3. Deposits up to Rs. 100 crore
4. Deposits more than Rs. 100 crore and up to Rs. 1,000 crore

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-4, R-3, S-2

May/June 2021

54. A UCB is applying for branch expansion and asserts it is FSWM. Upon inspection, it is found that the bank has a sound internal control system but only one professional director on the Board. Which statement is correct regarding its FSWM status?

(A) It qualifies because internal control is sound, which overrides the director requirement.
(B) It qualifies if the sole professional director is the Chairman.
(C) It fails to qualify because it requires at least two professional directors on the Board.
(D) It fails to qualify because the requirement is a completely independent board.

Oct/Nov 2010

55. Consider the following statements concerning the Minimum capital to risk-weighted assets ratio (CRAR) requirements for UCBs:

I. Tier 1 UCBs shall maintain a minimum CRAR of 9 per cent of Risk Weighted Assets (RWAs).
II. Tier 2 to 4 UCBs shall maintain a minimum CRAR of 12 per cent of RWAs.
III. UCBs in Tier 2 to 4 not meeting the revised CRAR must achieve 10 per cent by March 31, 2024.
IV. The CRAR must reach exactly 11.5 per cent by March 31, 2025.
V. The computation of CRAR is stipulated in regulatory Master Circulars.

Which of the above statement(s) is/are correct?

(A) I, II, III, and V only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2005

56. A manufacturing firm classified as an MSME avails an incremental working capital loan from a cooperative bank. Under the Interest Subvention Scheme (ISS) for MSMEs, what is the quantum of interest relief provided and the maximum loan limit it applies to?

(A) 2 per cent per annum limited to the extent of Rs. 1 crore
(B) 3 per cent per annum limited to the extent of Rs. 2 crore
(C) 1.5 per cent per annum limited to the extent of Rs. 50 lakh
(D) 2 per cent per annum with no maximum limit

Oct/Nov 2022

57. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): The share of co-operatives in institutional credit to agriculture has registered a decline over the long term.

Reason (R): The large-scale branch expansion of commercial banks and the development of RRBs led to an expansion in rural credit, outstripping the growth rate of cooperative institutions.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

58. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): A tiered regulatory framework was felt necessary to balance the spirit of

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mutuality and co-operation prevalent in smaller banks and the growth ambitions of large-sized UCBs.
Reason (R): There is significant heterogeneity in the cooperative sector regarding the area of operation and complexity of business activities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2016

59. What does the acronym FSWM stand for in the context of the regulatory criteria for cooperative banks?
(A) Financially Secure and Well Monitored
(B) Fiscally Stable and Wealth Managed
(C) Financially Sound and Well Managed
(D) Fundamentally Sound and Well Maintained

May/June 2014

60. A Tier 1 UCB operating across multiple districts is assessing its minimum net worth requirement under the revised regulatory framework. What is the prescribed minimum net worth for this bank?
(A) Rs. 2 crore
(B) Rs. 5 crore
(C) Rs. 10 crore
(D) Rs. 50 crore

Oct/Nov 2007

61. The Master Direction on voluntary amalgamation of UCBs relies on the provisions of which sections of the Banking Regulation Act, 1949?
(A) Section 45 read with Section 56
(B) Section 3 read with Section 45
(C) Section 44A read with Section 56
(D) Section 31 read with Section 56

May/June 2025

62. Match the FSWM parameters with their corresponding threshold conditions:
List I: (FSWM Parameter)
P. Net NPA
Q. Profitability
R. Professional Directors
S. Monetary Penalty
List II: (Threshold Condition)
1. Not more than 3%
2. At least two on the Board
3. None imposed in the last two financial years
4. Net profit for at least three of preceding four years
(A) P-1, Q-4, R-2, S-3
(B) P-4, Q-1, R-3, S-2
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2019

63. Consider the following statements regarding the System-Based Asset Classification mandate:
I. It applies to UCBs with total assets of Rs. 1,000 crore or above.
II. It was instituted to improve the efficiency, transparency, and integrity of the asset classification process.
III. The effective date for implementation was June 30, 2021.
IV. It replaced the CAMELS rating model entirely.
Which of the above statement(s) is/are correct?
(A) I and III only
(B) II and III only
(C) I, II, and IV only
(D) II, III, and IV only

May/June 2009

64. What critical conceptual shift occurred when the Agricultural Refinance Corporation (ARC) was renamed the Agricultural Refinance and Development Corporation (ARDC) in 1975?
(A) It ceased providing refinance completely to focus on direct lending to the large-scale industrial sector.
(B) It shifted its focus exclusively to urban cooperative banking and housing finance for the middle-income group.
(C) It emphasized the developmental and promotional role in addition to its primary refinancing function.
(D) It merged with the State Bank of India to consolidate agricultural loans into a single commercial window.

Oct/Nov 2011

65. A district central cooperative bank (DCCB) is exploring voluntary amalgamation with a State Co-operative Bank (StCB). Requirements and

NODIA

ANSWERS

1. (A) Only I
The three-tier rural cooperative credit structure consists of Primary Agricultural Credit Societies at the village level, District Central Cooperative Banks at the district level, and State Cooperative Banks at the state level. While commercial banks and local area banks play significant roles in rural finance, they are distinct from this specific cooperative framework and are definitely included in the rural network.

2. (C) To remove operational irritants, address dual control, and align their regulatory framework with commercial banks.
The Regulatory Vision Document of 2005 was designed to strengthen the urban cooperative banking sector. It focused on streamlining operations by removing irritants and addressing the challenges posed by dual control. Furthermore, it aimed to bring the regulatory standards of these banks closer to those governing commercial banks to ensure overall financial stability across the Indian banking system.

3. (C) Agricultural Credit Department
Section 54 of the Reserve Bank of India Act, 1934, mandated the establishment of a specialized Agricultural Credit Department. This department was tasked with maintaining an expert staff to study all questions of agricultural credit and coordinate the operations of the Reserve Bank in connection with agricultural credit and its relations with state cooperative banks and other banking institutions.

4. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Banking Regulation Amendment Act of 2020 significantly streamlined the amalgamation process for urban cooperative banks. By empowering the central regulator to sanction amalgamations directly, the requirement for dual approval from both the regulator and the Registrar of Co-operative Societies was removed. This regulatory shift facilitates a much faster and more efficient consolidation process within the urban cooperative sector.

5. (D) I, II, and III
Since 1993, several measures have been implemented to reinforce the stability of urban cooperative banks. These include the application of capital adequacy standards and the prescription of asset-liability management frameworks to manage risks. Additionally, restrictions were placed on bank finance against corporate securities to prevent speculative lending and ensure the safety of depositors' funds within the cooperative banking environment.

6. (B) Speeding up the resolution of weak UCBs which are under All-Inclusive Directions (AID).
One of the primary implementation goals for the cooperative banking sector in 2020-21 involved accelerating the resolution process for weak urban cooperative banks. These institutions, often placed under All-Inclusive Directions due to financial instability, require timely intervention or merger to protect depositor interests and maintain the overall health of the cooperative financial ecosystem while ensuring systemic banking stability.

7. (B) The agricultural credit system
The agricultural credit system in India is a result of both natural evolution and specific policy interventions. It represents a systematic response to the growing demand for timely and sufficient credit in rural areas. This system has been continuously refined through various institutional developments and regulatory changes to ensure efficient delivery of financial services to farmers across the entire country.

8. (A) P-4, Q-1, R-2, S-3
Regulatory milestones for urban cooperative banks include the introduction of the supervisory reporting system in March 2001 and capital adequacy norms in March 2002. A complete ban on loans to directors followed in October 2003, while a simplified CAMELS rating system for non-scheduled banks was implemented in March

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rural locations.
(D) Only UCBs self-assessed at Level I which are primarily focusing on traditional banking services.

Oct/Nov 2021

73. Which of the following defines the term "director-related loans" as per the advisory to UCBs on February 5, 2021?
(A) Loans sanctioned exclusively for the purpose of training directors in risk management and ethics.
(B) Educational loans provided solely to the children of the bank's operational and management staff.
(C) Corporate loans extended to public limited companies without any director or management affiliation.
(D) Loans and advances to directors, their relatives, or entities in which they have a clear interest.

May/June 2024

74. A Tier 3 UCB has a CRAR of 11.2% as of the reference date. The minimum CRAR applicable to it is 12%. Based on the FSWM criteria relating to capital adequacy, which conclusion is correct?
(A) It qualifies for FSWM because its CRAR is consistently maintained above the 9% floor level.
(B) It qualifies because it is on the designated glide path to reach the 12% target by March 2026.
(C) It fails to qualify as its CRAR is not at least 1 percentage point above the 12% requirement.
(D) It fails to qualify purely because Tier 3 banks are subject to different liquidity management norms.

Oct/Nov 2008

75. Consider the following statements tracking the evolutionary timeline of rural credit infrastructure:
I. Section 54 of the RBI Act authorized the Agricultural Credit Department.
II. The All-India Rural Credit Survey (1954) proposed the National Agricultural Credit Fund.
III. The ARC was set up in 1963 for refinancing.
IV. ARDC was established in 1975 to highlight developmental roles.
V. NABARD was set up on July 12, 1982, taking over functions from ARDC and RBI.
Which of the above statement(s) is/are correct?
(A) I, II, III, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

NODIA

May/June 2006

76. Which of the following regulatory initiatives directly addresses the prospect of consolidation in the UCB sector by setting up an expert committee?
(A) Supervisory Action Framework (SAF) consultation
(B) Off-site Surveillance System (OSS) implementation
(C) Capital Adequacy Norms roll-out
(D) Discussion Paper on Consolidation of UCB Sector (February 2021)

Oct/Nov 2017

77. Based on the provisions of the amended Section 3 of the BR Act, 1949, which of the following defines a Primary Agricultural Credit Society (PACS)?
(A) A full-fledged commercial bank that is authorized by the central regulator to accept foreign NRI deposits.
(B) An urban co-operative bank operating exclusively in metropolitan areas and Tier 1 cities across the country.
(C) A district central cooperative bank that has been granted a full AD-1 license for foreign exchange trade.
(D) A society providing long-term agri-finance that cannot use the word "bank" or act as a drawee of cheques.

May/June 2008

78. All of the following are true regarding the National Co-operative Finance and Development Corporation Ltd. EXCEPT:
(A) It was incorporated on April 18, 2020.
(B) It functions as an Umbrella Organisation (UO) for UCBs.
(C) Its registered office is in New Delhi.
(D) It is registered as a government-owned public limited company.

May/June 2007

90. An inspecting officer is checking the FSWM status of an Urban Cooperative Bank. The bank reports a Net NPA of 2.8%. How does this affect its FSWM eligibility?

(A) It qualifies the bank under asset quality norms as Net NPA does not exceed the 3% limit.

(B) It disqualifies the bank as the regulator requires Net NPA to be zero for such classification.

(C) It disqualifies the bank as Net NPA must be less than 2% for any branch expansion activities.

(D) It requires the bank to immediately raise its CRAR by at least 2 percentage points for safety.

Oct/Nov 2025

91. Consider the following statements detailing the revised net worth norms for UCBs:

I. A Tier 1 UCB operating in multiple districts must have a minimum net worth of Rs. 5 crore.

II. All UCBs falling in Tier 2, 3, and 4 must maintain a minimum net worth of Rs. 10 crore.

III. UCBs not meeting the norm must achieve 50% of the requirement by March 31, 2026.

Which of the above statement(s) is/are correct?

(A) I and II only

(B) II and III only

(C) I and III only

(D) I, II, and III

May/June 2012

92. Consider the following statements concerning the BR (Amendment) Act, 2020:

I. It applies to Primary Agricultural Credit Societies under Section 3.

II. Section 45 allows the regulator to supersede the Board of Directors of a co-operative bank in consultation with the state government.

III. Section 56 helps narrow down regulatory arbitrage between commercial banks and co-operative banks.

IV. It enables better access to capital while improving governance.

Which of the above statement(s) is/are correct?

(A) I, II, and III only

(B) II, III, and IV only

(C) I, III, and IV only

(D) I, II, and IV only

Oct/Nov 2014

93. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): According to the Master Directions, an amalgamating cooperative bank is offered incentives such as the flexibility to close loss-making branches and open new ones.

Reason (R): These incentives are granted provided the amalgamating bank assures to protect the deposits of the amalgamated bank using its own resources or state government support.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2019

94. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): A salary earners' UCB with deposits of Rs. 15,000 crore is categorized as a Tier 1 UCB under the Revised Regulatory Framework.

Reason (R): The framework explicitly categorizes all unit UCBs and salary earners' UCBs into Tier 1, irrespective of their deposit size.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

95. Identify the incorrect statement regarding the transition glide path for UCBs in Tier 2 to Tier 4 that currently do not meet the 12% CRAR requirement.

(A) They are completely exempt from CRAR requirements if their net worth is above Rs. 10 crore.

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May/June 2022

84. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The Board of Directors of a co-operative bank can be superseded by the Reserve Bank of India under Section 45 of the BR Act.
Reason (R): The amendment to the BR Act provides the regulator with these powers, which must be exercised in consultation with the state government concerned.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

85. Identify the incorrect statement concerning the monetary penalty criterion for a UCB to be classified as Financially Sound and Well Managed (FSWM).
(A) No monetary penalty should have been imposed on the bank on account of violation of regulatory directives.
(B) The assessment period for the absence of monetary penalties is the last two financial years.
(C) A penalty imposed by the State Government strictly disqualifies the bank under this directive.
(D) Violations of guidelines triggering penalties will hinder the bank from achieving FSWM status.

May/June 2016

86. The decentralized credit planning introduced to spearhead credit allocation for agricultural lending was executed through which of the following mechanisms?
(A) Off-site Surveillance System (OSS)
(B) Lead Bank Scheme
(C) Supervisory Action Framework (SAF)
(D) Financial Inclusion Index

Oct/Nov 2009

87. Consider the following statements concerning the BR (Amendment) Act, 2020:
I. It applies to Primary Agricultural Credit Societies under Section 3.
II. Section 45 allows the regulator to supersede the Board of Directors of a co-operative bank in consultation with the state government.
III. Section 56 helps narrow down regulatory arbitrage between commercial banks and co-operative banks.
IV. It enables better access to capital while improving governance.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, and IV only

May/June 2023

88. The rationale behind setting a differentiated minimum CRAR of 9% for Tier 1 UCBs and 12% for Tier 2 to Tier 4 UCBs is best explained by which of the following?
(A) Tier 1 UCBs are fully backed by the central government and have no significant exposure to risk assets.
(B) Tier 2 to Tier 4 UCBs do not maintain Statutory Liquidity Ratio (SLR) which increases their risk profile.
(C) Tier 1 UCBs are exclusively salary earners' banks which bear no credit risk due to guaranteed deductions.
(D) Tier 1 UCBs engage in simpler activities and have limited operational areas compared to larger banks.

Oct/Nov 2018

89. Which statement correctly encapsulates the historical significance of the All-India Rural Credit Survey (1954)?
(A) It recommended the total abolishment of all primary agricultural credit societies to streamline credit flows.
(B) It established the foundation for rural credit infrastructure by proposing the National Agricultural Credit Fund.
(C) It mandated the immediate nationalization of all regional rural banks to enhance governmental supervision.
(D) It brought all existing urban cooperative banks under the direct control of the capital market regulator SEBI.

NODIA

17. (A) I and II only
The amended Section 45 of the Banking Regulation Act grants the central regulator enhanced powers to reconstruct or amalgamate banks. This process can be initiated with or without a moratorium, providing flexibility in handling stressed institutions. Importantly, while the regulator acts in consultation with relevant authorities, the mandatory requirement is approval from the central government, rather than the respective state governments.

18. (D) 11.3 per cent
By the year 2019-20, the landscape of agricultural credit in India had changed significantly, with commercial banks holding the majority share. Data reveals that the market share of cooperative banks in institutional credit to agriculture stood at 11.3 per cent. This reflects a long-term decline in their relative share as other financial institutions expanded their presence in rural areas.

19. (D) To protect depositors' interests and improve governance and oversight by the central regulator.
The 2020 amendment to the Banking Regulation Act was primarily driven by the need to safeguard depositors' interests within the cooperative banking sector. By bringing urban cooperative banks under the direct regulatory oversight of the central authority, the amendment aims to enhance governance, ensure professional management, and improve the overall financial health and transparency of these cooperative banking institutions.

20. (B) Rs. 100 crore and above
The Off-site Surveillance System was extended to non-scheduled urban cooperative banks to monitor their financial health remotely and proactively. This regulatory requirement applies to banks that have reached a specific deposit size threshold of 100 crore rupees and above. This system helps the regulator identify potential risks and ensure compliance with safety norms through periodic and automated electronic reporting.

21. (C) National Bank for Agriculture and Rural Development (NABARD)
The development of a Supervisory Action Framework for State Cooperative Banks and District Central Cooperative Banks involves close coordination between regulatory bodies. The draft framework is being consulted with the National Bank for Agriculture and Rural Development. This collaborative approach ensures that the specific operational characteristics and risks of rural cooperative institutions are adequately addressed in the supervisory framework.

22. (B) Primary agricultural credit societies and land development banks
While the central regulator oversees various banking entities under the Banking Regulation Act, certain cooperative institutions fall outside its direct supervisory purview. Primary agricultural credit societies and land development banks are generally excluded from this specific regulatory framework. Instead, they are often governed by state cooperative laws, focusing on grassroots credit delivery rather than broad-based and complex commercial banking activities.

23. (D) Task Force under A Vaidyanathan
In August 2004, a Task Force headed by A. Vaidyanathan was appointed to examine the challenges facing the rural cooperative banking sector. The committee was tasked with recommending a comprehensive regulatory and financial framework to revitalize these institutions. Its recommendations led to significant reforms, including financial packages and structural changes aimed at improving the efficiency and delivery of rural credit.

24. (D) It is explicitly prohibited from using the words "bank", "banker", or "banking" in its name.
Under the amended provisions of Section 3 of the Banking Regulation Act, cooperative societies that are not authorized to carry out banking business are restricted in their naming conventions. Specifically, societies providing long-term agricultural finance that do not meet banking criteria are prohibited from using terms like "bank" or "banking" in their names to prevent public confusion regarding their status.

25. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Since the 1950s, regulatory authorities have prioritized harmonizing efforts to manage rural finance effectively. Aligning strategies with other regulators ensures a more streamlined and

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(B) They are mandated to achieve a minimum CRAR of at least 10 per cent on or before March 31, 2024.
(C) They are mandated to achieve a minimum CRAR of at least 11 per cent on or before March 31, 2025.
(D) They are mandated to achieve a minimum CRAR of at least 12 per cent on or before March 31, 2026.

May/June 2021

96. A cooperative bank acts as an Eligible Lending Institution (ELI) for a local manufacturing MSME. Under the Interest Subvention Scheme (ISS), the MSME has an outstanding term loan of Rs. 1.5 crore. For what maximum amount of this loan can the 2% interest subvention be claimed?
(A) Rs. 50 lakh
(B) Rs. 1 crore
(C) Rs. 1.5 crore
(D) Rs. 2 crore

Oct/Nov 2010

97. Consider the comprehensive regulatory roadmap laid out for Urban Co-operative Banks (UCBs). Which of the following statements are correct?
I. Salary earners' UCBs are placed in Tier 1 irrespective of their deposit size.
II. Tier 3 UCBs hold deposits more than Rs. 1,000 crore and up to Rs. 10,000 crore.
III. The computation of "Net worth" is provided in regulatory Annexures.
IV. The CRAR glide path for Tier 2 to Tier 4 ends on March 31, 2026.
V. The Net worth glide path requires 100% compliance on or before March 31, 2028.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2005

98. Match the specific Financially Sound and Well Managed (FSWM) operational requirements with their descriptions:
List I: (Operational Requirement)
P. Core Banking Solution (CBS)
Q. Internal Control System
R. Regulatory Compliance (CRR/SLR)
S. Monetary Penalty
List II: (Description)
1. No default during the preceding financial year
2. Fully implemented
3. No imposition during the last two financial years
4. At least two professional directors on the Board
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-4, R-2, S-3

Oct/Nov 2022

99. For the purpose of categorizing UCBs into the four-tiered regulatory framework, how are the deposits reckoned?
(A) Based on the average daily deposits maintained throughout the current financial year.
(B) Based on the unaudited balance sheet submitted at the end of every calendar quarter.
(C) Based on the projected deposits expected to be held in the upcoming financial year.
(D) As per the audited balance sheet on 31st March of the immediate preceding financial year.

May/June 2018

100. Bank Sigma is a UCB with deposits of Rs. 800 crore, a net worth of Rs. 3 crore, and a CRAR of 10.5%. Based on the Revised Regulatory Framework, which of the following assessments regarding its regulatory obligations is accurate?
(A) It is a Tier 1 bank, meets the Rs. 2 crore net worth requirement, and complies with the 9% CRAR norm.
(B) It is a Tier 3 bank, must reach a net worth of Rs. 10 crore immediately, and falls short of FSWM criteria.
(C) It is a Tier 2 bank but is exempt from the CRAR glide path because its net worth is above Rs. 2 crore.
(D) It is a Tier 2 bank and must reach its specific net worth and CRAR targets by the prescribed deadlines.

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Oct/Nov 2013

79. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The complete implementation of a Core Banking Solution (CBS) is a mandatory criterion for a UCB to be designated as Financially Sound and Well Managed (FSWM).
Reason (R): CBS ensures centralized and transparent data management, which is essential for accurate calculation of CRAR, Net NPA, and systemic internal control.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

80. Consider the following statements regarding the FSWM criteria for UCBs:
I. The bank must not have defaulted in CRR/SLR maintenance during the preceding financial year.
II. The bank must have a sound internal control system with at least one professional director.
III. Core Banking Solution (CBS) must be fully implemented.
IV. No monetary penalty should have been imposed by the regulator in the last two financial years.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2012

81. What was the primary objective of introducing a supervisory reporting system for scheduled UCBs in March 2001?
(A) To evaluate the feasibility of privatizing UCBs to improve their operational efficiency and profit margins.
(B) To mandate the mandatory adoption of CBS across all branches for real-time tracking of rural transactions.
(C) As a first step towards setting up an Off-site Surveillance System (OSS) for all registered UCBs.
(D) To track the daily cash flow of primary agricultural credit societies to prevent any systemic liquidity risks.

May/June 2011

82. Consider the following statements concerning the Interest Subvention Scheme (ISS) for MSMEs:
I. It applies to all cooperative banks acting as Eligible Lending Institutions (ELIs).
II. It provides an interest relief of two per cent per annum.
III. The relief is applicable to eligible MSMEs on their outstanding fresh/incremental term loan/working capital.
IV. The relief is limited to the extent of Rs. 1 crore during the period of its validity.
V. It was implemented with effect from March 31, 2021.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, IV, and V only

Oct/Nov 2020

83. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): Resolving the issues of the cooperative banking structure required significant effort from both the regulator and the Government.
Reason (R): The dual control of co-operative banking institutions by the Reserve Bank of India and the Registrar of Co-operative Societies triggered persistent structural and operational issues.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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2004 to enhance supervision and monitoring across the sector.

9. (B) Section 3 – Makes the provisions of the Act inapplicable to Primary Agricultural Credit Societies
Under the amended Banking Regulation Act of 1949, Section 3 clarifies that the Act's provisions do not apply to primary agricultural credit societies. This distinction is crucial as these societies focus on providing short-term credit at the grassroots level and are regulated differently than urban cooperative banks, which fall under more stringent banking regulations managed by the central regulator.

10. (C) The share of Regional Rural Banks (RRBs) witnessed a sharp reduction.
Between 2012-13 and 2019-20, institutional credit to agriculture saw significant shifts. While the share of commercial banks rose and the share of cooperative banks declined, the share of Regional Rural Banks remained relatively stable. Therefore, stating that Regional Rural Banks experienced a sharp reduction in market share during this period is factually incorrect based on the reported financial data.

11. (D) They are community or region-based.
The expert committee on urban cooperative banks noted that their community or region-based nature often hinders consolidation. Because these banks are deeply rooted in specific local identities and serve particular social groups, merging them can be complex. This localized focus, while a strength for community banking, creates significant challenges when attempting large-scale mergers or structural reorganization of the sector.

12. (C) To emphasize the developmental and promotional role assigned in addition to refinancing
When the Agricultural Refinance Corporation was renamed the Agricultural Refinance and Development Corporation in 1975, its mandate was significantly expanded. While it continued its primary function of providing refinance, it took on a more active developmental and promotional role. This change highlighted the government's focus on proactively fostering growth and modernization within the vital agricultural sector through institutional support.

13. (A) I, II, III, and IV only
The grading system introduced for urban cooperative banks in April 2003 evaluated several critical performance metrics. These included the capital to risk-weighted assets ratio, the level of net non-performing assets, and the bank's history of profits or losses. Compliance with the regulatory environment was also a key factor, providing a comprehensive assessment of each bank's health without replacing other models.

14. (C) To review the performance of UCBs and suggest necessary measures to strengthen the urban banking sector
The High-Power Committee headed by K. Madhava Rao was appointed in 1999 to conduct a thorough review of the urban cooperative banking sector. Its primary objective was to evaluate the performance of these banks and recommend necessary measures to strengthen them. The committee's findings played a crucial role in shaping modern regulatory frameworks and improving governance standards for the entire sector.

15. (D) The bank is completely exempted from maintaining the Statutory Liquidity Ratio (SLR) for five years.
Amalgamating cooperative banks are provided several incentives to facilitate the consolidation process, such as flexibility in opening or closing branches and retaining specialized licenses. However, a complete five-year exemption from maintaining the Statutory Liquidity Ratio is not among these incentives. Banks must continue to meet essential liquidity requirements to ensure the safety and stability of the post-merger institution.

16. (A) I, II, IV, III
Institutional developments in agricultural credit followed a specific timeline, starting with the Agricultural Refinance Corporation in 1963. This was followed by the nationalisation of major commercial banks in 1969. Subsequently, Regional Rural Banks were established in 1975 to target rural areas, and finally, NABARD was set up in 1982 to centralise agricultural and rural development functions under one apex body.

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indicative benchmarks for this process were specified on which of the following dates?
(A) March 23, 2021
(B) May 24, 2021
(C) June 29, 2020
(D) April 1, 2021

May/June 2010

66. Under the regulations imposed since October 2003 regarding loans to directors, which of the following is an allowed exception?
(A) None of the above; there is a complete ban
(B) Loans to a director's relative for a medical emergency
(C) A director acting as a surety/guarantor for a third-party corporate loan
(D) Loans to a firm where the director holds a majority interest

Oct/Nov 2024

67. Identify the incorrect statement regarding the evolution of rural credit institutions.
(A) Creation of Agricultural Credit Department – Section 54 of RBI Act
(B) Refinancing institutions directly to rural sector – Agricultural Refinance Corporation (1963)
(C) Primary Agricultural Credit Societies – Regulated primarily by the Banking Regulation Act since 1949
(D) Decentralized credit planning – Lead Bank Scheme

May/June 2017

68. Bank Omega incurred a net loss in the financial year 2021-22 but made net profits in 2018-19, 2019-20, and 2020-21. If the bank applies for FSWM status in the financial year 2022-23 (where 2021-22 is the immediate preceding year), will it satisfy the profitability criterion?
(A) Yes, because it made profits in three out of the preceding four years.
(B) No, because it incurred a net loss in the immediate preceding year.
(C) Yes, because net loss in the immediate preceding year is ignored if prior years are profitable.
(D) No, because it must have consecutive profits for five years.

Oct/Nov 2005

69. Based on institutional performance trends in the flow of institutional credit to agriculture, identify the incorrect pair.
(A) State Cooperative Banks – Overtook commercial banks in total disbursement
(B) Commercial banks – Showed a steady rise in share
(C) Co-operative banks – Experienced a decline in share
(D) Regional Rural Banks (RRBs) – Share remained largely the same

May/June 2020

70. According to the revised regulatory framework, which of the following is the minimum CRAR requirement for a Tier 1 UCB on an ongoing basis?
(A) 9 per cent of Risk Weighted Assets
(B) 10 per cent of Risk Weighted Assets
(C) 11 per cent of Risk Weighted Assets
(D) 12 per cent of Risk Weighted Assets

Oct/Nov 2015

71. Consider the following statements regarding the regulatory directives to UCBs in 2003:
I. UCBs were directed to undertake usual due diligence in respect of investments in non-SLR securities.
II. A new system of grading UCBs was introduced in April 2003 based on criteria including CRAR and Net NPAs.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

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May/June 2013

72. Instructions were issued on August 12, 2020, regarding the "Comprehensive Cyber Security Framework for UCBs". Which UCBs were specifically advised to implement this by September 30, 2021?
(A) All urban cooperative banks regardless of their total asset size or their digital depth assessment.
(B) Level III or IV self-assessed UCBs with assets between Rs. 1,000 crore and Rs. 2,000 crore.
(C) UCBs with total assets less than Rs. 100 crore operating in non-metropolitan and

accelerated flow of credit to rural sectors. This harmonization also allows for the regulation of rural institutions using standards similar to those for commercial banks, thereby enhancing the overall stability and health of the financial system.

26. (A) P-2, Q-4, R-1, S-3
Key milestones in rural finance include the All-India Rural Credit Survey in 1954 and the establishment of the Agricultural Refinance Corporation in 1963. The corporation was later renamed the Agricultural Refinance and Development Corporation in 1975. Additionally, the first Regional Rural Banks were also established in 1975 to provide focused credit services to the underserved rural population.

27. (C) Two-thirds majority
For a voluntary amalgamation proposal between urban cooperative banks to be valid, it must receive significant internal support. According to regulatory directions issued in March 2021, such a proposal must be approved by a two-thirds majority of the board members of each concerned bank. This ensures that major structural changes have broad consensus among the bank's leadership and management team.

28. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Duality of control between the central regulator and state registrars has historically hampered the autonomy of cooperative institutions. While a task force in 1999 did recommend clarifying the roles of various stakeholders to address these overlaps, the assertion and the reason represent independent factual observations regarding the systemic challenges and the specific committee recommendations made to resolve them.

29. (D) April 1, 2021
The amendments to the Banking Regulation Act concerning cooperative banks were implemented in phases across the sector. For State Cooperative Banks and District Central Cooperative Banks, the revised provisions officially came into force on April 1, 2021. This timeline allowed these rural financial institutions to prepare for the transition to a more centralized and rigorous regulatory framework under the authority.

30. (D) Madhavpura Mercantile Cooperative Bank
The collapse of the Madhavpura Mercantile Cooperative Bank highlighted significant vulnerabilities within the cooperative banking system and the need for more frequent monitoring. This crisis directly led to the implementation and subsequent extension of the Off-site Surveillance System. This system allows for periodic, automated reporting to the regulator, enabling earlier detection of financial distress and any potential regulatory non-compliance.

31. (C) A non-government public limited company under the Companies Act 2013
The National Co-operative Finance and Development Corporation Limited was established to serve as an umbrella organisation for the urban cooperative banking sector. Legally, it is structured as a non-government public limited company incorporated under the Companies Act, 2013. This organizational format allows it to provide specialized services, such as liquidity support and IT infrastructure, to its various member banks.

32. (B) 10 per cent
Under the revised regulatory framework, urban cooperative banks in Tiers 2, 3, and 4 are subject to a phased increase in their capital adequacy requirements. If a bank currently falls below the ultimate target, it must meet specific interim milestones. The first major benchmark for these banks is to achieve a capital to risk-weighted assets ratio of 10 per cent.

33. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Due to the unprecedented disruptions caused by the COVID-19 pandemic, cooperative banks faced significant operational difficulties in preparing and submitting their statutory returns. Consequently, the deadline for furnishing these returns for the financial year ending March 31, 2020, was extended to December 31, 2020. This extension provided the necessary relief for banks to ensure accurate and complete regulatory reporting.

34. (B) I, II, and IV only
To be categorized as Financially Sound and Well Managed, an urban cooperative bank must meet

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CHAPTER 16
Financial Stability

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May/June 2016

1. The active phase of the global financial crisis, which manifested as a liquidity crisis, is dated from August 9, 2007, marked by which event?
(A) Lehman Brothers filing for bankruptcy.
(B) A US federal bailout announced with a support of $85 billion to AIG.
(C) The repeal of the Glass Steagall Act in the United States.
(D) BNP Paribas terminating withdrawals from three hedge funds citing a complete evaporation of liquidity.

Oct/Nov 2009

2. Which statement describes the core function of the off-site Monitoring and Surveillance (OSMOS) system?
(A) It operates as an independent credit information bureau for sharing data among commercial banks and lenders.
(B) It directly executes the restructuring of corporate debts of viable entities facing temporary financial problems.
(C) It serves as an early warning system and trigger for on-site inspections of institutions within the crisis framework.
(D) It administers the Prompt Corrective Action (PCA) framework for non-banking finance companies exclusively and daily.

May/June 2023

3. What is a core emphasis of the approach to financial stability that focuses on policy outcomes in emerging market economies?
(A) Ensuring the uninterrupted operation of payment and settlement systems within the domestic financial infrastructure.
(B) Eradicating all instances of individual bank failures and large swings in asset prices through strict regulatory oversight.
(C) Generating positive outcomes via cautious and prudent policies affecting institutions and markets in emerging economies.
(D) Establishing explicit minimum capital requirements and leverage ratios to constrain balance sheet expansion of banks.

Oct/Nov 2018

4. Identify the incorrect statement regarding the Board for Financial Supervision (BFS).
(A) It was constituted in November 1994 to supervise money market institutions in the country.
(B) The Members of the Board are drawn from the Central Board of the Reserve Bank.
(C) The BFS meets every quarter and relies exclusively on off-site monitoring.
(D) It exercises the powers of supervision and inspection under the RBI Act, 1934 and the Banking Regulation Act, 1949.

May/June 2007

5. Why do local banks lending in foreign currency to domestic borrowers face high vulnerability during a sudden currency devaluation?
(A) The central bank immediately increases the cash reserve ratio on foreign currency deposits to curb inflation.
(B) Borrowers may become unable to service foreign currency loans, creating cash flow problems for the lending bank.
(C) The value of the domestic collateral pledged by borrowers increases disproportionately compared to the loan value.
(D) Foreign banks operating in the domestic market withdraw all corresponding credit lines simultaneously and immediately.

Oct/Nov 2025

6. The Basel Committee's proposals to reduce the pro-cyclicality of financial sector regulation include all of the following EXCEPT:
(A) Base the calculation of capital on more conservative estimates of default probabilities.
(B) Completely abolish the minimum capital requirement and rely solely on the leverage ratio.

cent by March 2024, 11 per cent by March 2025, and the final 12 per cent target by March 2026. Additionally, a net worth milestone requires banks to achieve at least 50 per cent of their applicable requirement by March 2026.

44. (C) II and III only
When an urban cooperative bank's deposits increase, it may transition to a higher regulatory tier. This categorization is based on the audited balance sheet as of March 31 of the immediate preceding year. To help banks adjust to more stringent requirements, the regulator may provide a glide path of up to three years to ensure full compliance with the tier.

45. (C) NABARD - 1982
The National Bank for Agriculture and Rural Development was established on July 12, 1982, to serve as an apex institution for rural credit. Upon its creation, it took over the entire refinancing functions previously performed by the Agricultural Refinance and Development Corporation. It also assumed several rural credit-related responsibilities from the Reserve Bank of India to centralise agricultural development.

46. (C) September 30, 2021
Urban cooperative banks are required to implement a comprehensive cyber security framework based on their self-assessed digital depth and asset size. For banks with total assets of 1,500 crore rupees that have self-assessed at Level III, the regulator set a specific deadline. These institutions were advised to complete the implementation of the required security controls by September 30, 2021.

47. (B) Net NPA should be less than 5%.
The criteria for Financially Sound and Well Managed status are rigorous to ensure high standards of operation. While a bank must implement core banking solutions and maintain adequate capital, the threshold for asset quality is very specific. The net non-performing asset ratio must not exceed three per cent; therefore, a five per cent threshold would be incorrect for this classification.

48. (B) Non-Banking Financial Company (NBFC)
The National Co-operative Finance and Development Corporation Limited was established as an umbrella organisation to support urban cooperative banks. For its operational activities, it is required to seek a certificate of registration from the central regulator as a Non-Banking Financial Company. This status allows it to perform essential financial functions, such as providing liquidity support and capital to its members.

49. (A) CRAR exactly equal to the minimum applicable regulatory requirement.
To be classified as Financially Sound and Well Managed, an urban cooperative bank must exceed basic regulatory minimums. Specifically, its capital adequacy ratio must be at least one percentage point above the applicable minimum requirement. Simply meeting the minimum requirement is insufficient for this designation, as the criteria also demand strong asset quality, full CBS implementation, and no recent regulatory defaults.

50. (B) Rs. 2 crore
The revised regulatory framework sets specific minimum net worth requirements based on a bank's tier and area of operation. For a Tier 1 urban cooperative bank that operates exclusively within a single district, the prescribed minimum net worth is 2 crore rupees. This requirement is intended to ensure that even smaller banks maintain a basic level of financial resilience and stability.

51. (D) Reserve Bank of India and the Registrar of Co-operative Societies
Historically, cooperative banking institutions in India were subject to a system of dual control. Under this arrangement, the Reserve Bank of India managed the banking-related functions and regulatory oversight, while the Registrar of Co-operative Societies, at either the state or central level, handled administrative and managerial aspects. This dual governance structure often led to regulatory challenges and overlaps in oversight.

52. (D) Section 44A read with Section 56 of the BR Act, 1949
The process for the voluntary amalgamation of two or more urban cooperative banks is governed by specific legal provisions. According to the Master Direction issued in March 2021, these

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procedures rely on the powers conferred by Section 44A as they are applied to cooperative societies through Section 56 of the Banking Regulation Act. This framework ensures a legally sound consolidation.

53. (A) P-3, Q-4, R-1, S-2
The four-tiered regulatory framework categorises urban cooperative banks by deposit size. Tier 1 includes banks with deposits up to 100 crore rupees. Tier 2 covers deposits between 100 crore and 1,000 crore rupees. Tier 3 includes banks with deposits from 1,000 crore to 10,000 crore rupees, while Tier 4 consists of those with deposits exceeding 10,000 crore rupees for regulation.

54. (C) It fails to qualify because it requires at least two professional directors on the Board.
One of the governance-related criteria for an urban cooperative bank to be designated as Financially Sound and Well Managed is the composition of its board. The bank is required to have at least two professional directors on its Board of Directors. Therefore, having only one professional director, regardless of other internal controls, would disqualify the bank from achieving this status.

55. (A) I, II, III, and V only
Capital adequacy norms vary across the tiers of urban cooperative banks. While Tier 1 banks must maintain a minimum CRAR of nine per cent, banks in Tiers 2 through 4 are required to reach 12 per cent eventually. To achieve this, a phased glide path has been established, requiring an interim ratio of 10 per cent by March 31, 2024.

56. (A) 2 per cent per annum limited to the extent of Rs. 1 crore
The Interest Subvention Scheme for MSMEs provides financial relief to eligible enterprises on their outstanding credit. Under this scheme, a relief of two per cent per annum is granted on fresh or incremental term loans and working capital. However, this interest subvention is capped at a maximum loan amount of 1 crore rupees during the period of the scheme's validity.

57. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Although cooperative institutions were once the primary source of rural credit, their relative market share in agricultural lending has declined over time. This trend is largely due to the rapid expansion of commercial banks and the establishment of Regional Rural Banks. These institutions have grown at a much faster rate, significantly increasing the total volume of rural credit available nationwide.

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58. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The urban cooperative banking sector is characterized by significant heterogeneity, with banks varying greatly in size, business complexity, and geographic reach. To address this diversity, a tiered regulatory framework was introduced. This approach balances the cooperative spirit of smaller, localized banks with the more complex regulatory requirements needed for large, ambitious banks that operate similarly to commercial banking institutions.

59. (C) Financially Sound and Well Managed
In the regulatory landscape of cooperative banking, the acronym FSWM stands for Financially Sound and Well Managed. This designation is given to urban cooperative banks that meet specific, high-standard benchmarks regarding capital adequacy, asset quality, profitability, and governance. Achieving this status often grants the bank certain operational freedoms, such as easier approval for branch expansion or introducing new products.

60. (B) Rs. 5 crore
The revised regulatory framework for urban cooperative banks specifies minimum net worth targets based on the tier and the scope of operations. While a single-district Tier 1 bank requires a net worth of 2 crore rupees, a Tier 1 bank that operates across multiple districts must maintain a higher minimum net worth of 5 crore rupees to ensure stability.

61. (C) Section 44A read with Section 56
The Master Direction outlining the procedures for the voluntary amalgamation of urban

cooperative banks is fundamentally based on the Banking Regulation Act of 1949. Specifically, it utilizes the provisions of Section 44A, which governs the merger of banking companies. These provisions are made applicable to the cooperative sector through the overarching regulatory lens provided by Section 56 of the Act.

62. (A) P-1, Q-4, R-2, S-3
To achieve FSWM status, an urban cooperative bank must meet several thresholds. Its net NPA ratio must not exceed three per cent, and it must have reported a net profit in three of the preceding four years. Governance requirements include having at least two professional directors, while the regulatory record must show no monetary penalties in the last two financial years.

63. (B) II and III only
System-based asset classification was mandated to increase the reliability of loan categorization in larger urban cooperative banks. This requirement specifically targeted banks with total assets of 2,000 crore rupees or more as of March 31, 2020. These institutions were required to transition from manual to automated, system-driven asset classification processes by the effective date of June 30, 2021.

64. (C) It emphasized the developmental and promotional role in addition to its primary refinancing function.
The renaming of the Agricultural Refinance Corporation to the Agricultural Refinance and Development Corporation in 1975 marked a significant shift in its institutional objectives. While the corporation maintained its core function of providing refinance, it increasingly focused on developmental and promotional activities. This change reflected a broader strategy to actively stimulate growth and capacity-building within the rural sectors.

65. (B) May 24, 2021
Following the amendments to the Banking Regulation Act, specific guidelines were issued to facilitate structural changes in the rural cooperative sector. On May 24, 2021, the regulator specified the requirements and indicative benchmarks for the voluntary amalgamation of a District Central Cooperative Bank with a State Cooperative Bank. This provided a clear roadmap for consolidation among rural institutions.

66. (A) None of the above; there is a complete ban
Since October 2003, stringent regulations have been in place regarding financial dealings with the directors of urban cooperative banks. These regulations impose a complete and comprehensive ban on the granting of any loans or advances to directors and their relatives. There are no exceptions for medical emergencies or corporate interests, as the ban is intended to prevent conflicts.

67. (C) Primary Agricultural Credit Societies – Regulated primarily by the Banking Regulation Act since 1949
The history of rural credit shows that while many institutions evolved under federal law, primary agricultural credit societies remain largely outside the scope of the Banking Regulation Act of 1949. These grassroots societies are primarily governed by state-level cooperative laws. Other developments, like the creation of the Agricultural Credit Department and the Agricultural Refinance Corporation, followed their own legal paths.

68. (B) No, because it incurred a net loss in the immediate preceding year.
To qualify as Financially Sound and Well Managed, a bank's recent performance is critical. While the criteria require net profits in three out of the preceding four years, they also explicitly state that the bank must not have incurred a net loss in the immediate preceding financial year. Therefore, a loss in the most recent year disqualifies the bank from FSWM status.

69. (A) State Cooperative Banks – Overtook commercial banks in total disbursement
Over the last few decades, the landscape of agricultural credit has been dominated by commercial banks, which have seen a steady rise in their market share. In contrast, the relative share of cooperative banks, including state cooperative banks, has declined. Therefore, any claim that state cooperative banks have overtaken commercial banks in total agricultural credit disbursement is factually incorrect according to data.

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strict criteria. These include maintaining a net non-performing asset ratio of not more than three per cent and ensuring no defaults in cash reserve or statutory liquidity ratios. Additionally, the bank's capital adequacy ratio must remain at least one percentage point above the minimum.

35. (A) Tier 1
In the four-tiered regulatory framework for urban cooperative banks, certain types of institutions are automatically categorized into the first tier. This includes all unit-level banks and salary earners' banks, regardless of the total amount of deposits they hold. Therefore, a salary earners' bank with 150 crore rupees in deposits is classified as a Tier 1 institution for regulation.

36. (B) II and III only
The regulatory landscape for cooperatives was significantly altered by the Banking Laws (as Applicable to Cooperative Societies) Act of 1965, which came into effect on March 1, 1966. While State Cooperative Banks are integral to the three-tier rural credit structure, Primary Agricultural Credit Societies remain outside the direct regulatory purview of the central banking authority, unlike the urban banks.

37. (B) I, III, and IV only
System-based asset classification is designed to enhance the integrity and transparency of how banks categorize their loans. This mandate was specifically directed at urban cooperative banks with total assets of 2,000 crore rupees or more as of March 31, 2020. These banks were required to implement automated classification systems by June 30, 2021, to ensure accuracy and consistency.

38. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The regulator has introduced a phased timeline for urban cooperative banks to meet new minimum net worth requirements, culminating on March 31, 2028. To ensure steady progress, an interim milestone has been set requiring these banks to achieve at least 50 per cent of the stipulated net worth by March 31, 2026. This glide path allows banks sufficient time.

39. (D) Net profit for three out of preceding four years, excluding a net loss in the immediate preceding year.
The profitability criterion for designating a bank as Financially Sound and Well Managed requires a consistent track record. A bank must have reported a net profit in at least three of the preceding four financial years. Crucially, the bank must not have incurred a net loss in the immediate preceding year, ensuring it is currently in a stable position.

40. (D) Umbrella Organisation (UO) for UCBs – Registered office in New Mumbai
Several regulatory initiatives have been introduced to strengthen the cooperative sector, including voluntary amalgamation under the amended Banking Regulation Act and the formation of an umbrella organisation. While the National Co-operative Finance and Development Corporation serves as this umbrella entity, its registered office is actually located in New Delhi, making the statement regarding New Mumbai factually incorrect in this specific context.

41. (A) P-2, Q-4, R-1, S-3
Historical committees have shaped cooperative banking significantly. The 1954 Committee of Direction proposed the National Agricultural Credit Fund. In 1999, the Jagdish Capoor Task Force focused on functional autonomy, while the Madhava Rao Committee reviewed the urban banking sector. Finally, the 2004 Vaidyanathan Task Force examined the regulatory framework specifically for rural cooperative banking institutions to improve credit delivery systems.

42. (B) II and III only
Regulatory guidelines strictly prohibit urban cooperative banks from extending new loans or advances to their directors or their relatives. This restriction also extends to any firms or companies where these individuals have a vested interest. Furthermore, directors and their relatives are barred from acting as sureties or guarantors for any loans sanctioned by the bank to ensure unbiased and professional lending.

43. (D) P-2, Q-3, R-4, S-1
The capital adequacy glide path for urban cooperative banks sets specific deadlines for increasing the CRAR. Banks must reach 10 per

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entity is incorrect, as its ownership and structure are designed to serve the sector.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The complete implementation of a Core Banking Solution is a non-negotiable requirement for an urban cooperative bank to be considered Financially Sound and Well Managed. CBS is essential because it provides a unified, real-time database that ensures the accuracy and transparency of financial data. This technological foundation is critical for the reliable reporting of key financial metrics.

80. (B) I, III, and IV only
To be designated as Financially Sound and Well Managed, an urban cooperative bank must meet several stringent operational and financial benchmarks. These include avoiding any defaults in maintaining cash and liquidity reserves and fully implementing a Core Banking Solution. Furthermore, the bank must have a clean regulatory track record, with no monetary penalties during the last two years.

81. (C) As a first step towards setting up an Off-site Surveillance System (OSS) for all registered UCBs.
The introduction of a supervisory reporting system for scheduled urban cooperative banks in March 2001 was a foundational regulatory development. Its primary objective was to serve as the first step toward establishing a comprehensive Off-site Surveillance System. This allowed the regulator to collect and analyze financial data remotely, facilitating more proactive and continuous monitoring of the health of scheduled banks.

82. (A) I, II, III, and IV only
The Interest Subvention Scheme for MSMEs was designed to provide financial relief through all eligible lending institutions, including cooperative banks. The scheme offers an interest relief of two per cent per annum on outstanding fresh or incremental credit, up to a maximum limit of one crore rupees. These measures aim to lower the cost of borrowing for small businesses.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Strengthening the cooperative banking structure has required significant collaborative efforts from the government and the regulator. A primary driver of these efforts was the historical challenge of dual control, where regulatory authority was split between the central bank and state registrars. This overlap often led to operational inefficiencies and governance issues, necessitating legislative reforms to clarify and centralize oversight.

84. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Under the amended Section 36AAA of the Banking Regulation Act, the central regulator has been granted the power to supersede the Board of Directors of a cooperative bank if necessary. To ensure a balanced approach, this power is exercised in consultation with the respective state government. This provision allows for decisive intervention in cases of poor governance or mismanagement.

85. (C) A penalty imposed by the State Government strictly disqualifies the bank under this directive.
The Financially Sound and Well Managed status depends on a bank's record regarding regulatory penalties. Specifically, no monetary penalties should have been imposed by the central banking regulator for violations of its directives during the last two financial years. Penalties from other bodies, such as state governments, are not the primary disqualifying factor under this central regulatory framework.

86. (B) Lead Bank Scheme
The Lead Bank Scheme was the primary mechanism used to implement decentralized credit planning in India. Introduced in the late 1960s, it assigned specific districts to various commercial banks, which acted as leaders in coordinating the credit activities of all financial institutions in that area. This approach ensured that agricultural and rural credit needs were met systematically through planning.

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87. (B) II, III, and IV only
The 2020 amendment to the Banking Regulation Act introduced several key changes to improve the cooperative sector. It empowered the regulator to supersede boards in consultation with state governments and narrowed the regulatory gap between cooperative and commercial banks. These changes were designed to enhance governance and provide better access to capital, though they excluded primary agricultural credit societies.

88. (D) Tier 1 UCBs engage in simpler activities and have limited operational areas compared to larger banks.
The regulator has established differentiated capital adequacy requirements to reflect the varying risk profiles within the urban cooperative banking sector. Tier 1 banks are assigned a lower CRAR of nine per cent because they typically engage in simpler banking activities and have a limited geographic scope. Larger banks in higher tiers, which have more complex operations, maintain higher ratios.

89. (B) It established the foundation for rural credit infrastructure by proposing the National Agricultural Credit Fund.
The All-India Rural Credit Survey of 1954 was a landmark event that shaped the future of rural finance in India. It identified critical gaps in the existing system and proposed a comprehensive institutional framework to address them. One of its most significant recommendations was the establishment of the National Agricultural Credit Fund, which provided a stable financial base.

90. (A) It qualifies the bank under asset quality norms as Net NPA does not exceed the 3% limit.
Asset quality is a key pillar of the Financially Sound and Well Managed designation. The regulatory threshold for net non-performing assets is set at a maximum of three per cent. Since the bank in question has a net NPA ratio of 2.8 per cent, it successfully meets this specific requirement for FSWM classification, provided it also satisfies other financial criteria.

91. (C) I and III only
The revised regulatory framework mandates specific net worth targets for urban cooperative banks. While a Tier 1 bank operating in multiple districts needs a minimum net worth of 5 crore rupees, other banks face different requirements depending on their size. To facilitate compliance, the regulator has provided a glide path, requiring banks to achieve 50 per cent by 2026.

92. (B) II, III, and IV only
Legislative changes in 2020 significantly reformed the regulation of cooperative banks. By amending the Banking Regulation Act, the central authority gained the power to intervene in bank management and reduced regulatory arbitrage between different types of banks. These measures were aimed at improving overall governance and capital access for the sector, while keeping primary agricultural credit societies separate.

93. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
To encourage consolidation, the regulator offers several incentives to urban cooperative banks that participate in amalgamations. These include increased operational flexibility, such as the ability to open or close branches more easily. These incentives are granted on the condition that the amalgamating bank takes full responsibility for protecting the deposits of the smaller institution during the process.

94. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Under the revised four-tiered regulatory framework, all salary earners' urban cooperative banks are categorized as Tier 1 institutions. This classification applies regardless of the total amount of deposits the bank holds, even if those deposits exceed the usual Tier 1 threshold. This is because salary earners' banks are considered to have a different risk profile and operational focus.

95. (A) They are completely exempt from CRAR requirements if their net worth is above Rs. 10 crore.
Urban cooperative banks in Tiers 2 through 4 that do not currently meet the 12 per cent CRAR target must follow a specific regulatory glide path. They are required to reach 10 per cent by 2024, 11 per cent by 2025, and 12 per cent by 2026. There

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is no total exemption from these capital adequacy requirements based on net worth.

96. (B) Rs. 1 crore
The Interest Subvention Scheme for MSMEs is designed to reduce the cost of credit for small businesses through a two per cent interest relief. However, this financial benefit is subject to a strict ceiling. Regardless of the total size of an enterprise's outstanding term loan or working capital, the subvention can only be claimed on a maximum amount of one crore.

97. (D) I, II, III, IV, and V
The regulatory roadmap for urban cooperative banks is comprehensive, covering categorization, capital adequacy, and net worth. It specifies that salary earners' banks are Tier 1 and provides clear deposit-based definitions for other tiers. The roadmap also includes specific glide paths for both CRAR and net worth compliance, ensuring that all banks eventually reach high standards by 2026 and 2028.

98. (A) P-2, Q-4, R-1, S-3
Achieving FSWM status requires meeting several operational benchmarks. Banks must have fully implemented Core Banking Solutions and maintained perfect records for CRR and SLR during the previous year. Governance is assessed through the presence of at least two professional directors on the board, while regulatory compliance is verified by the absence of any monetary penalties over two years.

99. (D) As per the audited balance sheet on 31st March of the immediate preceding financial year.
The classification of an urban cooperative bank into one of the four regulatory tiers is based on its deposit size. To ensure accuracy and consistency, the regulator uses a specific reference point: the audited balance sheet from the end of the immediate preceding financial year, March 31. This method provides a finalized and verified figure for determining the tier.

100. (D) It is a Tier 2 bank and must reach its specific net worth and CRAR targets by the prescribed deadlines.
With 800 crore rupees in deposits, Bank Sigma is classified as a Tier 2 institution. While it meets some basic requirements, its net worth of 3 crore rupees and CRAR of 10.5 per cent are below the final targets for Tier 2 banks. Consequently, the bank must follow the mandated glide paths to increase its net worth and capital adequacy ratios.

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70. (A) 9 per cent of Risk Weighted Assets
Under the revised four-tiered regulatory framework, capital requirements are scaled according to the size and nature of the urban cooperative bank. Tier 1 banks, which include smaller unit banks and salary earners' banks, are required to maintain a minimum capital to risk-weighted assets ratio of nine per cent on an ongoing basis to ensure financial stability and resilience.

71. (C) Both I and II
In 2003, the regulator issued several important directives to strengthen the urban cooperative banking sector. One directive required these banks to perform standard due diligence when investing in non-SLR securities to ensure prudent investment management. Additionally, a new grading system based on capital adequacy and asset quality was introduced in April 2003 to provide better oversight of bank performance.

72. (B) Level III or IV self-assessed UCBs with assets between Rs. 1,000 crore and Rs. 2,000 crore.
The implementation of the Comprehensive Cyber Security Framework for urban cooperative banks was organized based on risk levels. Specifically, banks that had self-assessed as Level III or IV and possessed total assets between 1,000 crore and 2,000 crore rupees were targeted for early compliance. These institutions were advised to meet the specified security standards by the September 30, 2021.

73. (D) Loans and advances to directors, their relatives, or entities in which they have a clear interest.
Director-related loans refer to any credit facilities extended by an urban cooperative bank to its own board members or their family members. This definition also encompasses loans provided to firms, companies, or other business entities where the directors or their relatives hold a significant interest. Regulatory restrictions on such loans aim to ensure professional lending and prevent misuse of funds.

74. (C) It fails to qualify as its CRAR is not at least 1 percentage point above the 12% requirement.
For an urban cooperative bank in Tier 3 to be designated as Financially Sound and Well Managed, it must exceed the minimum capital requirements. Since the mandatory CRAR for Tier 3 banks is 12 per cent, the bank must maintain a CRAR of at least 13 per cent to qualify for FSWM status. A ratio of 11.2 per cent falls below.

75. (D) I, II, III, IV, and V
India's rural credit infrastructure has evolved through several key milestones, starting with the establishment of the Agricultural Credit Department and the 1954 Rural Credit Survey. Subsequent developments included the creation of the ARC in 1963 and its transformation into the ARDC in 1975. The process culminated on July 12, 1982, with the establishment of NABARD as the apex institution.

76. (D) Discussion Paper on Consolidation of UCB Sector (February 2021)
In February 2021, the regulator released a Discussion Paper on the Consolidation of the Urban Cooperative Bank Sector. This initiative was part of a broader effort to examine the prospects of strengthening the sector through mergers and acquisitions. An expert committee was established alongside this paper to provide specific recommendations on how to achieve a more sustainable structure.

77. (D) A society providing long-term agri-finance that cannot use the word "bank" or act as a drawee of cheques.
Under the amended Section 3 of the Banking Regulation Act, primary agricultural credit societies and certain other cooperative societies are restricted from performing certain banking activities. Specifically, societies that provide long-term agricultural finance but do not meet full banking criteria are prohibited from using terms like "bank" in their name and cannot act as a drawee for cheques.

78. (D) It is registered as a government-owned public limited company.
The National Co-operative Finance and Development Corporation Limited was incorporated in April 2020 to act as an umbrella organisation for urban cooperative banks. Headquartered in New Delhi, it is structured as a non-government public limited company. Therefore, stating that it is a government-owned

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(C) Promote more forward-looking provisions.
(D) Conserve capital to build capital buffers at individual banks that can be used under stress.

May/June 2012

7. How is financial stability generally defined in economic literature when focusing on the efficient allocation of savings?
(A) Ensuring uninterrupted financial transactions and maintenance of a high level of confidence in the overall financial system.
(B) A financial system ensuring lasting, efficient allocation of savings to investment opportunities without major disruptions.
(C) A positive outcome that emerges from being cautious and prudent in the pursuit of policies affecting financial institutions.
(D) The ability to fund increases in assets and meet obligations as they come due without incurring unacceptable losses or costs.

Oct/Nov 2014

8. Which statement accurately describes the United Kingdom's proposed institutional framework for financial stability?
(A) The creation of a single mega-regulator combining the central bank, the Treasury, and the securities commission.
(B) A 'twin peaks' model dividing responsibilities between a new prudential regulator and a consumer protection authority.
(C) The establishment of the Financial Stability Oversight Council attached to the Treasury Department of the government.
(D) The complete delegation of all macro-prudential supervision to the European Systemic Risk Board for member states.

May/June 2019

9. Identify the incorrect statement concerning India's response to the Global Financial Crisis of 2008.
(A) India did not experience a financial crisis, as its financial system remained largely insulated from toxic assets.
(B) There was massive dilution of collateral standards, shifting from government securities to mortgage securities.
(C) In the process of liquidity injection, the counterparties involved were banks.
(D) The gradual and sequential approach to liberalization of the capital account prevented leveraging of the Indian financial system.

Oct/Nov 2006

10. From a peak of 15.0 per cent in 1994-95, to what level was the Cash Reserve Ratio (CRR) brought down as of July 2017?
(A) 6.0 per cent
(B) 4.5 per cent
(C) 4.0 per cent
(D) 3.5 per cent

May/June 2021

11. Institutional and technological infrastructure initiatives taken by the Reserve Bank of India for financial market development include all of the following EXCEPT:
(A) Delivery vs Payment (DvP) System
(B) Real Time Gross Settlement System (RTGS)
(C) Structured Financial Messaging Solution (SFMS)
(D) The European Systemic Risk Board (ESRB)

Oct/Nov 2010

12. What is the fundamental concept of Early Warning Signals (EWS)?
(A) Real-time automated alerts generated by a bank's internal IT systems during unauthorized access attempts by outsiders.
(B) A set of mandatory disclosures required by the Basel Committee before a bank can issue new equity in the market.
(C) Symptoms indicating potential crisis situations, used by policy makers for monitoring and initiating preventive actions.
(D) The notifications sent by the Financial Action Task Force regarding non-compliant member countries in the global system.

May/June 2005

13. Which statement correctly identifies a feature of the Basel III capital adequacy framework proposals?
(A) Prescribing a minimum Tier 1 requirement and making common equity the predominant form of bank capital.
(B) The elimination of the leverage ratio in favor of purely risk-based capital requirements for all global banks.

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(C) The exclusive reliance on external credit rating agencies to determine risk weights for sovereign credit risk.
(D) The complete exemption of derivative transactions from counterparty credit risk capital charges for trading banks.

Oct/Nov 2022

14. How does a stable macroeconomic environment potentially contribute to financial instability over the long run?
(A) It permanently eliminates all market volatility, causing trading volumes to drop to zero across all exchanges.
(B) It leads to the immediate removal of all prudential regulations by the supervisory authorities to encourage growth.
(C) It can generate excessive optimism about future prospects, which may downplay associated risks emerging therefrom.
(D) It forces central banks to exclusively use quantitative variables as pricing decisions for all monetary instruments.

May/June 2018

15. According to global principles on the role of supervisors in liquidity risk management, supervisors should do all of the following EXCEPT:
(A) Conduct an independent evaluation of a bank's strategies, policies, procedures, and practices related to the management of liquidity.
(B) Require that a bank has an effective system in place to measure, monitor, and control liquidity risk.
(C) Ensure the bank has adequate liquidity contingency plans.
(D) Directly manage the daily asset/liability matching operations on behalf of the bank's board of directors.

Oct/Nov 2016

16. Which definition of financial stability emphasizes the absence of excessive volatility affecting real economic activity?
(A) Ensuring uninterrupted transactions, maintaining participant confidence, and preventing excessive volatility affecting real economic activity.
(B) The prevalence of a financial system that ensures the efficient allocation of savings to investment opportunities without disruptions.
(C) The ability of a banking organization to withstand both temporary and longer-term disruptions in its capacity to fund activities.
(D) The continuous monitoring of macroeconomic variables to detect the possible emergence of crisis situations and systemic risks.

May/June 2014

17. Identify the incorrect statement about the changes in monetary policy operating procedures in India.
(A) The Reserve Bank adopted a single indicator approach since 1998-99, relying exclusively on the cash reserve ratio.
(B) The introduction of fixed rate repo in December 1997 helped in creating an informal corridor in the money market.
(C) The reliance on reserve requirements as an instrument of monetary control has been reduced.
(D) The introduction of LAF from June 2000 enabled the modulation of liquidity conditions on a daily basis.

Oct/Nov 2007

18. In which year was the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) constituted?
(A) 1994
(B) 1999
(C) 2005
(D) 2010

May/June 2025

19. Which statement regarding the linkage between monetary policy and financial stability is accurate?
(A) Price stability inherently ensures financial stability without the need for bank regulation and supervision.
(B) The transmission of monetary policy to the real economy is entirely independent of the smooth functioning of key financial markets.
(C) Central banks have entirely abandoned the objective of monetary stability in favor of financial stability since the 1990s.
(D) Financial instability threatens sustainable growth and price stability, requiring central

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banks to monitor markets.

Oct/Nov 2019

20. In an environment of rising interest rates, what is the primary cause of adverse selection in bank lending?

(A) Low-quality borrowers selecting higher-cost loans, which eventually leads to a decline in the return flow of funds.

(B) High-quality borrowers increase their borrowing to take advantage of the rising rates and expand their operations.

(C) Banks shift their focus entirely to trading in government securities rather than issuing loans to the private sector.

(D) Central banks intervention by lowering the cash reserve ratio, flooding the market with excess liquidity and demand.

May/June 2009

21. Contingency planning for dealing with liquidity problems should consist of several components. These include all of the following EXCEPT:

(A) Spelling out procedures to ensure information flows remain timely and uninterrupted.

(B) A strategy for taking certain actions to alter asset and liability behaviors.

(C) A guarantee from the central bank to automatically purchase all unsalable assets at book value.

(D) Procedures for making up cash flow shortfalls in adverse situations.

Oct/Nov 2011

22. What was the maximum aggregate foreign investment limit in private banks from all sources stipulated by the Reserve Bank of India?

(A) 26 per cent of the paid-up capital

(B) 49 per cent of the paid-up capital

(C) 74 per cent of the paid-up capital

(D) 100 per cent of the paid-up capital

May/June 2010

23. What is the critical distinction between illiquidity and insolvency in crisis management?

(A) Illiquidity involves a lack of sufficient capital, while insolvency involves a temporary shortfall in cash inflows.

(B) Illiquidity only impacts off-balance-sheet items, while insolvency exclusively affects domestic currency deposits.

(C) Illiquidity is measured by the leverage ratio, while insolvency is measured by the Net Stable Funding Ratio.

(D) Illiquidity is the inability to fund assets and meet obligations, whereas insolvency is a failed resolution of illiquidity.

Oct/Nov 2024

24. Identify the incorrect statement regarding the management of foreign currency liquidity.

(A) A bank should undertake separate analysis of its strategy for each currency individually.

(B) In a general market crisis, a run on the currency could trigger a run on deposits.

(C) Local banks lending in foreign currency to domestic borrowers are vulnerable to sudden devaluations.

(D) Banks typically have higher mismatches for foreign currency liquidity than those tolerated for domestic currency.

May/June 2017

25. Which statement characterizes the construction of a maturity ladder for liquidity assessment?

(A) It requires matching exact daily cash flows without any assumptions about the future behavior of assets and liabilities.

(B) It ranks cash inflows by maturity date and outflows by the date liabilities fall due to calculate a net deficit.

(C) It completely excludes all off-balance sheet items and contingent liabilities from the calculation of the cumulative net.

(D) It assumes that all unsalable assets can be liquidated at face value within the first three days of a liquidity crisis.

Oct/Nov 2005

26. What characterizes 'herd behaviour' in the context of financial stability?

(A) Central banks acting collectively as lenders of last resort to prevent systemic insolvency during market downturns.

(B) The coordinated implementation of macroeconomic policies by the Group of 20 countries to stabilize global markets.

(C) The simultaneous adoption of identical internal control systems by all commercial banks within a specific jurisdiction.

(D) Market participants imitating the behavior of major players, potentially triggering system-wide crises via collective action.

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May/June 2020

27. In a standard early warning signals (EWS) framework, indicators are categorized under several broad heads. Which of the following is NOT included in the 'Debt Profile' category?
(A) The current account balance
(B) Public foreign debt
(C) Share of debt classified by type of creditor
(D) Debt service and foreign aid

Oct/Nov 2015

28. When was the Board for Financial Supervision (BFS) constituted to supervise the money market institutions in the country?
(A) November 1994
(B) April 1999
(C) March 2003
(D) November 2005

May/June 2013

29. Identify the incorrect statement regarding the reasons for the Global Economic Crisis of 2008.
(A) High mortgage approval rates led to a large pool of homebuyers, which drove up housing prices.
(B) Widespread failures in financial regulation and supervision contributed to the crisis.
(C) The crisis was precipitated by a low default rate in the United States subprime home mortgage sector.
(D) The accumulation and subsequent high default rate of mortgages led to financial crisis and damage to the world economy.

Oct/Nov 2021

30. What drives the phenomenon known as "wrong way risk" in derivative transactions?
(A) The use of standardized approaches instead of internal rating-based approaches for measuring credit risk.
(B) The misalignment of variable pay components with long-term value creation in bank compensation structures.
(C) The failure to apply a discount to liquid assets when calculating cumulative cash-flow mismatches for banks.
(D) Counterparty conditions worsening at the exact same time they suffer losses on their derivatives transactions.

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May/June 2024

31. Arrange the establishment of the following international standard setting bodies in chronological order from earliest to latest:
I. Financial Action Task Force (FATF)
II. International Accounting Standards Committee (IASC)
III. Financial Stability Forum (FSF)
IV. International Association of Insurance Supervisors (IAIS)
(A) I, II, III, IV
(B) II, IV, I, III
(C) II, I, IV, III
(D) IV, I, II, III

Oct/Nov 2008

32. Which of the following pairs incorrectly matches the institution/framework and its feature?
(A) Financial Stability Forum (FSF) - Formed with the objective of eliminating information asymmetries and adopting stricter prudential regulations.
(B) Dodd-Frank Act - Divided the regulatory system in the UK into three distinct parts under the twin peaks model.
(C) G-20 - Formed in 1999 to focus on issues of financial stability and other economic issues.
(D) SDDS - Devised specifically for the Members of the International Monetary Fund to disseminate macroeconomic data.

May/June 2006

33. What is the most appropriate strategy for dealing with the vulnerability of holding foreign currency assets, especially when currencies are pegged or fixed?
(A) Issuing unhedged foreign currency debt to domestic retail depositors.
(B) Holding foreign currency assets in an amount equal to foreign currency liabilities.
(C) Completely avoiding operations in any foreign exchange markets.
(D) Relying entirely on domestic currency deposits to fund long-term foreign currency assets without any back-up facilities.

Oct/Nov 2017

34. Consider the following statements regarding the Board for Financial Supervision (BFS):
I. The BFS meets every month and, based on a quarterly reporting system, conducts on-

site supervision and off-site monitoring of banks.
II. The Governor of the Reserve Bank serves as the Vice-Chairman of the BFS.

Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2008

35. Match the International Standard Setting Bodies in List I with their primary domains in List II.
List I: (Body)
P. BCBS
Q. CPSS
R. FATF
S. IAIS
List II: (Primary Domain)
1. Combat money laundering and terrorism financing.
2. Formulates broad supervisory standards and guidelines for banking.
3. Internationally endorsed principles and standards for effective insurance regulation.
4. Issues related to payment and settlement systems.

(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2013

36. Consider the following statements regarding the Board's role in liquidity management under Basel Liquidity Principle 2:
I. The board of directors should approve the strategy and significant policies related to the management of liquidity.
II. The board must personally execute the daily asset and liability matching functions.
III. The board should be informed regularly of the liquidity situation of the bank and immediately if there are any material changes.

Which of the following combinations is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2015

37. What is the most appropriate approach for a bank regarding the establishment of limits on the cumulative cash-flow mismatches?
(A) Calculating mismatches using a conservative view of liquidity, with discounts for price volatility and forced sales.
(B) Limits should be based entirely on the assumption that all assets can be sold at face value instantaneously and easily.
(C) Limits should only be set for periods exceeding one year, ignoring intra-day and short-term liquidity risk management.
(D) The limits should exclusively target off-balance-sheet items while ignoring on-balance-sheet liabilities and deposits.

Oct/Nov 2012

38. Match the terminology associated with financial crises in List I with their definitions in List II.
List I: (Terminology)
P. Herd behaviour
Q. Contagion
R. Wrong way risk
S. Spillovers
List II: (Definition)
1. The financial condition of counterparties worsening at the same time they suffer losses on derivatives.
2. Market participants imitating the actions of big players without independent analysis.
3. The adverse effects of a crisis in one country affecting linked countries through trade or financial markets.
4. The systemic spread of crisis stemming from re-evaluation of ratings and investor panic across inter-linked countries.

(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-1, R-4, S-3
(C) P-1, Q-3, R-2, S-4
(D) P-2, Q-4, R-1, S-3

May/June 2011

39. Consider the following statements regarding Fair Value Accounting (SFAS 157):
I. It required tradable assets such as mortgage securities to be valued at their historic cost rather than their current market value.
II. When the market for such securities became volatile and collapsed, the resulting loss of value had a major financial effect upon institutions holding them.

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procedures for making up cash flow shortfalls in adverse situations.
IV. Banks should rely excessively on back-up lines since they never become unavailable during a crisis.
V. The existence of early amortization triggers in asset securitization transactions can involve significant liquidity risk.

Which of the following combinations is correct?
(A) I, II, III, and IV only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2024

62. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): The introduction of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) aims to prevent systemic solvency crises caused by institutional liquidity constraints.
Reason (R): Indian banks face a major challenge in implementing liquidity standards because they have historically experienced the exact same extreme levels of stress as advanced country markets.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

63. Consider the following statements regarding the regulation of compensation practices of banks:
I. Bank executives focused too much on long-term value creation at the expense of short-term profits.
II. The proposed framework involves increasing the proportion of variable pay aligned with long-term value creation.
III. The framework advocates for instituting deferral and claw-back clauses to offset future losses caused by the executives.
IV. Regulatory guidelines often mandate that variable pay should be risk aligned.

Which of the following combinations is correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, and IV only

May/June 2006

64. To prevent further destabilization from volatile short-term inflows in the future, a country considers imposing controls on capital inflows. Which historical mechanism is commonly referenced for such a policy?
(A) The Twin Peaks model
(B) The Glass Steagall separation
(C) Throwing 'sand in the wheel' via taxes on inflows, as practiced by Chile in the 1980s
(D) Establishing a Global Central Bank

Oct/Nov 2017

65. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): The implementation of fair value accounting had a major financial effect upon institutions holding mortgage securities during the 2008 crisis.
Reason (R): Fair value accounting required tradable assets to be valued according to their current market value rather than their historic cost, leading to severe recognized losses when the market collapsed.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2022

66. A bank operates in multiple jurisdictions. To comply with global liquidity management standards, what specific mechanism must the bank implement regarding its foreign currency positions?
(A) Implementing systems to monitor and control liquidity across all major currencies in which the bank is active.
(B) Converting all foreign currency deposits into domestic currency immediately upon

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(B) P-2, Q-4, R-1, S-3
(C) P-1, Q-3, R-2, S-4
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2007

45. Consider the following statements regarding the management of market access under Basel Liquidity Principle 8:

I. A bank should periodically review its efforts to establish and maintain relationships with liability holders.
II. The bank should aim to maintain the diversification of its liabilities.
III. The bank must ensure its capacity to sell assets when necessary.

Which of the following combinations is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2005

46. Which measure is most appropriate to act as a credible supplement and backstop to the risk-based capital requirements under Basel III proposals?
(A) A highly complex internal ratings-based approach for operational risk.
(B) A simple, transparent, non-risk based leverage ratio.
(C) An exclusive reliance on external credit rating agencies.
(D) The elimination of all Tier 1 capital deductions.

Oct/Nov 2022

47. Consider the following statements regarding data dissemination standards:

I. The Special Data Dissemination Standards (SDDS) were devised specifically for members of the World Bank.
II. The General Data Dissemination Standards (GDDS) apply to those Fund Members who do not have access to private markets.

Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2011

48. Match the early warning signals (EWS) categories in List I with their corresponding indicators in List II.
List I: (Category)
P. Capital Account
Q. Debt Profile
R. Current Account
S. Financial Liberalization
List II: (Indicators)
1. Public foreign debt, total foreign debt, debt service
2. Real exchange rate, terms of trade, price of exports
3. International reserves, foreign direct investment, capital flows
4. Credit growth, real interest rates, spread between bank lending and deposit rates
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2018

49. Which of the following pairs incorrectly matches the early warning signals (EWS) category with its respective indicator?
(A) International Variables - Central Bank credit to banks, bond yields, domestic inflation.
(B) Fiscal Variables - Fiscal deficit, government consumption, credit to public sector.
(C) Real Sector - Real GDP, output gap, employment/unemployment.
(D) Institutional/Structural Factors - Openness, trade concentration, dummies for multiple exchange rates.

May/June 2014

50. Match the supervisory rating models/systems in List I with their target entities/functions in List II.
List I: (Model/System)
P. CAMELS
Q. CALCS
R. OSMOS
S. ICAAP
List II: (Entity/Function)
1. Internal process by banks to align risk management with business plans.
2. Rating model used for domestic commercial banks.
3. Off-site monitoring and surveillance system

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Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2020

40. Match the global regulatory bodies/reforms in List I with their descriptions in List II.
List I: (Body/Reform)
P. Financial Stability Oversight Council (FSOC)
Q. Twin Peaks Model
R. European Systemic Risk Board (ESRB)
S. Financial Stability and Development Council (FSDC)
List II: (Description)
1. Established to undertake macro-prudential supervision of the EU financial system as a whole.
2. Apex council in India for institutionalizing the mechanism for maintaining financial stability.
3. US agency attached to the Treasury Department tasked with identifying and monitoring systemic risks.
4. UK reform dividing responsibilities between a prudential regulator and a consumer protection authority.
(A) P-4, Q-3, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-3, Q-4, R-1, S-2

May/June 2022

41. Consider the following statements regarding the conduct of monetary policy in India:
I. The RBI adopted a multiple indicator approach since 1998-99.
II. The introduction of fixed rate repo helped in creating an informal corridor in the money market.
III. The reliance on reserve requirements as an instrument of monetary control has been completely eliminated.
Which of the following combinations is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2023

42. What is the most significant challenge in deploying a countercyclical capital buffer based on an economic cycle?
(A) Forcing all banks to adopt an identical internal capital adequacy assessment process regardless of their size and complexity.
(B) Calculating the exact daily cash flow mismatches for foreign currency portfolios across all international branches.
(C) Identifying cycle inflection points using objective criteria in a global setting where cycles are not synchronized.
(D) Ensuring that the leverage ratio replaces the risk-weighted assets calculation completely within the primary regulatory pillar.

Oct/Nov 2016

43. Which of the following pairs correctly matches the Basel Liquidity Principle with its core requirement?
(A) Principle 6 - Establishing a process for the ongoing measurement of net funding requirements.
(B) Principle 10 - Having a measurement, monitoring and control system for liquidity positions in major foreign currencies.
(C) Principle 14 - Disclosing adequate information to manage public perception.
(D) Principle 2 - Analyzing liquidity utilizing a variety of 'what if' scenarios.

May/June 2023

44. Match the Indian legal and institutional frameworks in List I with their primary purpose in List II.
List I: (Framework)
P. SARFAESI Act
Q. FRBM Act
R. CIBIL
S. FMC (Financial Markets Committee)
List II: (Purpose)
1. Facilitate sharing of information related to credit matters.
2. Provide impetus to banks to ensure sustained recovery and deal with NPAs.
3. Bring reasonable control over fiscal management.
4. Review liquidity and interest rate scenarios daily before market opening.
(A) P-3, Q-2, R-4, S-1

NODIA

(A) Ensuring effective governance of compensation and aligning pay with prudent, long-term risk-taking.
(B) To impose a strict statutory cap on the absolute monetary value of variable pay across all public and private sector banks.
(C) To transfer the responsibility of setting executive compensation from the bank's board to the central government officials.
(D) To mandate that 100 per cent of all executive compensation be paid strictly in fixed monthly salary components.

Oct/Nov 2005

57. Consider the following statements regarding India's response to the Global Financial Crisis of 2008:
I. India experienced a severe financial crisis as its financial system was heavily exposed to toxic assets.
II. India's growth process was largely driven by domestic savings and domestic demand, which limited the impact of the global recession.
III. There was no dilution of collateral standards, which were largely government securities.
Which of the following combinations is correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2019

58. Match the Basel Liquidity Principles in List I with their specific focus areas in List II.
List I: (Principle)
P. Principle 1
Q. Principle 2
R. Principle 4
S. Principle 5
List II: (Focus Area)
1. Adequate information systems for measuring, monitoring, controlling and reporting liquidity risk.
2. The board of directors should approve the strategy and significant policies related to the management of liquidity.
3. Process for the ongoing measurement and monitoring of net funding requirements.
4. Agreed strategy for the day-to-day management of liquidity communicated throughout the organization.
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-1, Q-3, R-4, S-2

Oct/Nov 2013

59. Consider the following statements regarding the 2008 Global Financial Crisis:
I. The expansion of the subprime home mortgage sector was encouraged by the Community Reinvestment Act (CRA) in the US.
II. The crisis demonstrated that price stability does not necessarily ensure financial stability.
Which of the above statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2008

60. Match the Basel III Proposals in List I with their specific objectives in List II.
List I: (Proposal)
P. Leverage Ratio
Q. Capital Conservation Buffer
R. Liquidity Coverage Ratio (LCR)
S. Net Stable Funding Ratio (NSFR)
List II: (Objective)
1. Ensure resilience over the short term.
2. Contain excessive balance sheet expansion through a simple, non-risk based measure.
3. Promote resilience over the longer term.
4. Mandate building up capital in good times that can be drawn down in stress periods.
(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-3, R-2, S-4

Oct/Nov 2021

61. Consider the following statements regarding bank contingency planning for liquidity management:
I. A contingency plan needs to spell out procedures to ensure that information flows remain timely and uninterrupted.
II. A major element is a strategy for taking certain actions to alter asset and liability behaviors.
III. Contingency plans should include

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for early warning.
4. Rating model used for foreign banks.

(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-3, R-4, S-1
(C) P-2, Q-4, R-3, S-1
(D) P-3, Q-1, R-2, S-4

Oct/Nov 2009

51. Consider the following statements regarding Systemically Important Financial Institutions (SIFIs):

I. The BCBS is engaged in evolving a framework that involves a capital and liquidity surcharge and enhanced supervision for SIFIs.
II. A major challenge is evolving objective criteria for identifying systemically important institutions since their importance is likely to be time-varying.
III. Resolving SIFIs without recourse to taxpayer money reduces the probability and impact of a SIFI failure.

Which of the following combinations is correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2020

52. Arrange the following institutional developments in the Indian financial sector in chronological order from earliest to latest:

I. Establishment of the Board for Financial Supervision (BFS)
II. Constitution of the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS)
III. Setup of the Credit Information Bureau (India) Limited (CIBIL)
IV. Passing of the SARFAESI Act

(A) I, IV, III, II
(B) III, I, II, IV
(C) II, I, III, IV
(D) I, III, IV, II

Oct/Nov 2015

53. Match the Basel Liquidity Principles in List I with their specific focus areas in List II.

List I: (Principle)
P. Principle 8
Q. Principle 9
R. Principle 12
S. Principle 13

List II: (Focus Area)
1. Adequate system of internal controls over liquidity risk management process.
2. Mechanism for public disclosure of information to manage public perception.
3. Periodically review efforts to establish and maintain relationships with liability holders.
4. Contingency plans addressing the strategy for handling liquidity crises.

(A) P-4, Q-3, R-2, S-1
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-3, Q-1, R-4, S-2

May/June 2010

54. Consider the following statements regarding the supervisory models used by the RBI:

I. Since 1995, on-site inspections of domestic commercial banks are based on the CAMELS model.
II. Foreign banks operating in India are rated on the CALCS model, which emphasizes capital adequacy, asset quality, liquidity, compliance, and systems.

Which of the above statements is/are correct?

(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2024

55. Which of the following pairs correctly matches the international standard setting body with its mandate?

(A) IASC - Developing and approving international accounting standards.
(B) IOSCO - Developing internationally endorsed principles for insurance regulation.
(C) IFAC - Promoting policies designed to achieve sustained economic growth and employment.
(D) CPSS - Setting standards to combat money laundering and terrorism financing.

May/June 2017

56. What is the primary intent behind regulators issuing guidelines on the compensation of Whole Time Directors, Chief Executive Officers, and Risk Takers?

NODIA

receipt from any depositor.
(C) Relying solely on domestic liquidity to meet all foreign currency funding requirements during market stress events.
(D) Abolishing all internal limits on cash flow mismatches for foreign currencies to provide maximum flexibility.

Oct/Nov 2023

67. Consider the following statements regarding the causes of the Global Economic Crisis:
I. Public investigations have concluded that the crisis was the result of high risk, complex financial products and undisclosed conflicts of interest.
II. Dramatic failures of corporate governance and risk management have been identified as key drivers of the crisis.
III. The repeal of the Glass Steagall Act in 1999 maintained the strict separation between investment banks and depository banks in the US.
IV. Critics argued that credit rating agencies accurately priced the risk involved with mortgage-related financial products.
Which of the following combinations is correct?
(A) I and II only
(B) III and IV only
(C) I, II, and III only
(D) II, III, and IV only

May/June 2015

68. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): When calculating cumulative cash-flow mismatches, a bank should apply a discount to liquid assets.
Reason (R): Assets may experience price volatility and a drop in price in the event of a forced sale during periods of stress.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

69. Following massive capital outflows, real estate prices in a country crash. According to the dynamics of financial stability, what is the primary consequence for domestic banks?
(A) Collateral values decline, hindering recovery efforts and potentially leading to institution-wide illiquidity.
(B) Banks immediately increase their Tier 1 capital ratio by revaluing the depreciated assets at current prices.
(C) The central bank automatically injects foreign currency reserves directly into retail deposit accounts to stop runs.
(D) The liquidity coverage ratio of banks naturally improves due to the decreased value of outstanding loans and liabilities.

May/June 2013

70. Consider the following statements regarding the transition and progress of Basel norms in India:
I. The central bank constituted a Steering Committee comprising senior officials from various banks.
II. Banks were required to adopt the standardized approach for credit risk.
III. Banks were required to adopt the basic indicator approach for operational risk.
IV. Banks were required to adopt the standardized duration method for market risk.
V. Indian banks were fully exempted from computing capital charges for market risk under the revised framework.
Which of the following combinations is correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, IV, and V only

Oct/Nov 2020

71. A bank establishes a backup credit line to make up for potential cash flow shortfalls in adverse situations. What critical caution should management exercise regarding these backup lines?
(A) Management must recognize that back-up lines often become unavailable or are withdrawn during times of extreme stress.
(B) They should rely exclusively on uncommitted facilities to save on fee expenses and improve the net margin.

NODIA

8. (B) A 'twin peaks' model dividing responsibilities between a new prudential regulator and a consumer protection authority.
The United Kingdom adopted an institutional framework often referred to as the twin peaks model. This structure divides regulatory responsibilities between two distinct authorities. One entity focuses on prudential regulation to ensure the safety and soundness of financial institutions, while the other concentrates on consumer protection and conduct of business to safeguard the interests of market participants.

9. (B) There was massive dilution of collateral standards, shifting from government securities to mortgage securities.
During the 2008 global crisis, India maintained stability through prudent collateral standards and gradual capital account liberalization. The domestic financial system remained largely insulated because it avoided exposure to toxic subprime assets. Notably, India did not experience a dilution of collateral standards. Collateral for liquidity injections remained primarily high-quality government securities rather than the risky mortgage-backed securities seen elsewhere.

10. (C) 4.0 per cent
The Cash Reserve Ratio is a mandatory portion of total deposits that commercial banks must maintain with the central bank. Over several decades, this ratio has been adjusted to manage liquidity and support economic growth. While it reached a peak of fifteen percent in the mid-nineties, the ratio was progressively reduced to four percent by July 2017.

11. (D) The European Systemic Risk Board (ESRB)
The Reserve Bank of India has implemented several institutional and technological initiatives to enhance market efficiency. Key developments include the Real Time Gross Settlement system for fund transfers and the Delivery versus Payment system for securities. While these mechanisms strengthen domestic infrastructure, the European Systemic Risk Board is an international macro-prudential body and not an Indian initiative.

12. (C) Symptoms indicating potential crisis situations, used by policy makers for monitoring and initiating preventive actions.
Early warning signals represent a collection of symptoms that indicate the potential emergence of crisis situations. Policymakers and regulators use these indicators to monitor the health of the financial system. By identifying these signals early, authorities can initiate timely preventive actions and implement necessary policy adjustments to mitigate risks before they escalate into full-scale systemic financial instability.

13. (A) Prescribing a minimum Tier 1 requirement and making common equity the predominant form of bank capital.
The Basel III capital adequacy framework emphasizes improving the quality of the capital base. A central feature is the prescription of a minimum Tier 1 capital requirement, with common equity serving as the primary form of loss-absorbing capital. This focus ensures that banks maintain high-quality reserves capable of absorbing losses during periods of significant financial and economic stress.

14. (C) It can generate excessive optimism about future prospects, which may downplay associated risks emerging therefrom.
A prolonged stable macroeconomic environment can ironically contribute to future financial instability. Such stability often breeds excessive optimism among market participants regarding future economic prospects. This sentiment can lead individuals and institutions to downplay emerging risks, encourage higher levels of leverage, and foster riskier investment behaviors that eventually culminate in systemic vulnerabilities when the economic cycle turns.

15. (D) Directly manage the daily asset/liability matching operations on behalf of the bank's board of directors.
Global liquidity risk management principles define clear roles for supervisors. They must evaluate a bank's internal strategies, policies, and procedures while ensuring that effective monitoring and control systems are in place. However, supervisors do not take over the daily management of asset and liability matching operations. That specific operational

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Which of the following combinations is correct?

(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

Oct/Nov 2010

77. If a payment failure in one country adversely affects the balance sheets of financial institutions in a neighboring country linked by trade, what is this phenomenon termed?

(A) Countercyclical buffering
(B) Herd behaviour
(C) Wrong way risk
(D) Spill over or contagion effect

May/June 2025

78. Consider the following statements regarding internal controls for liquidity risk:

I. An effective system involves regular independent reviews and evaluations.
II. Internal controls must be independent of the bank's overall system of internal control.
III. The system includes a strong control environment and an adequate process for identifying and evaluating liquidity risk.
IV. The internal audit function should periodically review the liquidity management process.
V. Management should ensure that reviews are conducted by individuals who are independent of the function being reviewed.

Which of the following combinations is correct?

(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, IV, and V only

Oct/Nov 2019

79. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:

Assertion (A): The Financial Stability Forum (FSF) was formed with the objective of eliminating information asymmetries and adopting stricter prudential regulations over financial institutions.

Reason (R): The G-20 asked the FSF to clearly identify those international standards and codes of transparency practices that could be regarded as key to fostering financial stability.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

80. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:

Assertion (A): Under the Basel III reforms, the minimum common equity requirement was effectively raised from 2% to 4.5% after the application of stricter adjustments.

Reason (R): The global crisis exposed the inability of quantitative risk management models to capture market risk in trading book positions under stressed conditions.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

81. When setting internal limits on cumulative cash-flow mismatches as a percentage of total liabilities, an ALCO decides to evaluate its liquid assets. What adjustment should be made to these assets?

(A) A premium should be added to reflect future potential gains.
(B) They should be multiplied by the bank's leverage ratio.
(C) A discount should be applied to cover price volatility and any drop in price in the event of a forced sale.
(D) They should be matched exactly one-to-one with unmarketable assets.

May/June 2007

82. Consider the following statements regarding indicator categories for early warning signals:

I. Capital Account indicators include foreign

NODIA

24. (D) Banks typically have higher mismatches for foreign currency liquidity than those tolerated for domestic currency.
Managing foreign currency liquidity requires specific strategies for each active currency. Banks are vulnerable during currency devaluations, especially if they lend in foreign currency to domestic borrowers. Contrary to allowing higher risks, banks typically maintain tighter limits on foreign currency mismatches compared to domestic currency. This cautious approach helps prevent a run on deposits if the national currency experiences significant volatility.

25. (B) It ranks cash inflows by maturity date and outflows by the date liabilities fall due to calculate a net deficit.
A maturity ladder is a fundamental tool for assessing liquidity. It involves ranking expected cash inflows based on their maturity dates and comparing them against outflows according to when liabilities fall due. This structured comparison allows a bank to calculate its net deficit or surplus over various time horizons, providing a clear view of its ongoing and future funding requirements.

26. (D) Market participants imitating the behavior of major players, potentially triggering system-wide crises via collective action.
Herd behavior refers to the tendency of market participants to imitate the actions of large or influential players rather than conducting independent analysis. In financial markets, this collective movement can create significant instability. When many participants buy or sell the same assets simultaneously based on the actions of others, it can trigger system-wide crises and exacerbate market volatility.

27. (A) The current account balance
The early warning signals framework categorizes indicators into various logical groups. The debt profile category specifically includes variables such as public foreign debt, the total amount of foreign debt, and debt service obligations. While the current account balance is a vital macroeconomic indicator, it is typically categorized under the current account section rather than the debt profile section.

28. (A) November 1994
The Board for Financial Supervision was established to enhance the oversight of India's financial system. It was constituted in November 1994 to provide focused supervision and inspection of banks and other money market institutions. The creation of this board marked a significant step in institutionalizing the regulatory framework to ensure the safety and soundness of the domestic financial sector.

29. (C) The crisis was precipitated by a low default rate in the United States subprime home mortgage sector.
The 2008 global economic crisis was caused by multiple systemic failures. Key factors included weak financial regulation and excessive risk-taking in the housing market. Specifically, the crisis was triggered by a high default rate in the United States subprime mortgage sector, not a low one. These widespread defaults damaged the world economy and exposed major vulnerabilities in global financial institutions.

30. (D) Counterparty conditions worsening at the exact same time they suffer losses on their derivatives transactions.
Wrong way risk is a specific hazard found in derivative transactions. It occurs when the credit quality of a counterparty deteriorates at the same time the value of the derivative contract moves against them. This correlation means that as the counterparty's obligation to pay increases, their ability to actually make that payment decreases, significantly raising the potential for financial loss.

31. (C) II, I, IV, III
International standard-setting bodies emerged at different times to address specific global needs. The International Accounting Standards Committee was established first in 1973. This was followed by the Financial Action Task Force in 1989 and the International Association of Insurance Supervisors in 1994. Finally, the Financial Stability Forum was formed in 1999 to improve coordination among various regulatory authorities.

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(B) Approving liquidity strategies and significant policies while ensuring senior management monitors and controls risk effectively.
(C) Publishing the quarterly Financial Stability Review for the national market.
(D) Personally contacting liability holders to negotiate liquidity backstop facilities.

May/June 2005

88. Consider the following statements regarding International Standard Setting Bodies:
I. The BCBS formulates broad supervisory standards and guidelines in banking.
II. The CPSS provides a forum for cooperation on issues related to payment and settlement systems.
III. The FATF sets out recommendations to combat money laundering.
IV. The IOSCO develops and promotes standards of securities regulation.
V. The IFAC develops internationally endorsed principles for effective insurance regulation.
Which of the following combinations is correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, IV, and V only

Oct/Nov 2022

89. In an emerging market experiencing a sudden reversal of foreign portfolio investments, the central bank monitors early warning signals. Which of the following variables would be monitored under the "Current Account" category?
(A) Short-term capital flows
(B) The real exchange rate
(C) Foreign direct investment
(D) Debt service

May/June 2011

90. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): The credit to GDP ratio is considered a perfect and historically proven indicator for calibrating the countercyclical capital buffer in India.
Reason (R): In emerging economies, the credit to GDP ratio may naturally go up for structural reasons, such as enhanced credit intermediation owing to higher growth and efforts at deepening financial inclusion.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

91. To improve the secondary market liquidity of Government securities and enable better risk allocation for investors, what specific mechanism was proposed in the Government Securities Bill?
(A) The total prohibition of retail interest in the secondary market.
(B) The stripping and reconstitution of Government securities.
(C) Mandatory conversion of all government securities into foreign currency bonds.
(D) The exclusive use of uncommitted facilities for public debt management.

May/June 2014

92. To contain excessive balance sheet expansion, Basel III introduces a leverage ratio. How is this ratio characterized?
(A) A highly complex risk-weighted measurement tied strictly to internal rating models.
(B) A dynamic metric that adjusts daily based on foreign exchange rate fluctuations.
(C) A simple, transparent, non-risk based measure calibrated to act as a credible supplement to risk-based requirements.
(D) A regulatory mandate specifically targeting the statutory liquidity ratio portfolio.

Oct/Nov 2009

93. A bank is adjusting its capital structure to meet new Basel III regulations. Before the application of the capital conservation buffer, what is the new explicit minimum requirement for common equity?
(A) 2.0 per cent
(B) 4.0 per cent
(C) 4.5 per cent
(D) 8.0 per cent

NODIA

direct investment and short-term capital flows.
II. Debt Profile indicators include total foreign debt and debt service.
III. Current Account indicators include the real exchange rate and terms of trade.
IV. International Variables include foreign real GDP growth and price level.
V. Fiscal Variables include employment/ unemployment and changes in stock prices.

Which of the following combinations is correct?
(A) I, II, III, and IV only
(B) I, III, IV, and V only
(C) II, III, IV, and V only
(D) I, II, IV, and V only

Oct/Nov 2025

83. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): Pursuing financial stability requires an appreciation of the fact that it must be viewed in the context of financial sector development and diversification.
Reason (R): An individual bank failure or a large swing in asset prices does not necessarily mean financial instability.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

84. If a country maintains a rigid or pegged exchange rate during a period of capital outflows and falling asset prices, what specific risk does this pose?
(A) It eliminates all credit risk for domestic borrowers.
(B) It ensures that foreign direct investments immediately double to bridge the gap.
(C) It invites a speculative attack on the currency, potentially causing runs on banks.
(D) It automatically synchronizes the domestic economic cycle with global markets.

Oct/Nov 2016

85. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): Despite significant pressures on India's balance of payments in the second half of 2008-09, the comfortable foreign exchange market helped preserve orderly conditions.
Reason (R): There was a massive dilution of collateral standards in India, largely shifting from government securities to unrated mortgage securities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

86. Consider the following statements regarding the features of the New Basel Accord (Basel II):
I. It extends the current definition of capital on a consolidated basis to holding companies of banking groups.
II. It emphasizes the measurement of operational risk and credit risk.
III. Under the IRB approach, banks are allowed to use internal estimates of the borrower's credit worthiness.
IV. It substitutes the prudential and capital adequacy norms with a single-pillar approach relying exclusively on market discipline.

Which of the following combinations is correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

Oct/Nov 2007

87. A bank is restructuring its liquidity management framework and delegating daily operations to its Asset/Liability Committee (ALCO). According to standard liquidity principles, what explicit responsibility remains with the bank's board of directors?
(A) Executing the daily calculation of cumulative cash-flow mismatches.

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ANSWERS

1. (D) BNP Paribas terminating withdrawals from three hedge funds citing a complete evaporation of liquidity.
The global financial crisis's active phase began on August 9, 2007. This specific date was defined by BNP Paribas announcing the termination of withdrawals from three of its hedge funds. The bank cited a complete evaporation of liquidity in certain market segments, effectively signaling the onset of a broader systemic liquidity crisis across the international financial landscape.

2. (C) It serves as an early warning system and trigger for on-site inspections of institutions within the crisis framework.
The Off-site Monitoring and Surveillance system serves as a critical component of the regulatory framework for financial institutions. It functions primarily as an early warning mechanism designed to detect potential vulnerabilities. By analyzing submitted data, the system provides necessary triggers for initiating detailed on-site inspections, ensuring timely supervisory intervention before financial problems escalate into systemic crises.

3. (C) Generating positive outcomes via cautious and prudent policies affecting institutions and markets in emerging economies.
Emerging market economies often prioritize a stability approach focused on positive policy outcomes. This perspective emphasizes maintaining the integrity of financial institutions and markets through cautious and prudent regulatory frameworks. By ensuring that policy decisions lead to consistent stability, these economies aim to protect their developing financial infrastructure from excessive volatility and potential systemic disruptions during economic transitions.

4. (C) The BFS meets every quarter and relies exclusively on off-site monitoring.
The Board for Financial Supervision functions as the primary supervisory body under the Reserve Bank of India. Contrary to being an exclusively off-site entity meeting quarterly, it actually meets every month. The board utilizes a comprehensive quarterly reporting system to conduct both on-site supervision and off-site monitoring, exercising powers derived from the RBI Act and the Banking Regulation Act.

5. (B) Borrowers may become unable to service foreign currency loans, creating cash flow problems for the lending bank.
Currency devaluation significantly impacts domestic borrowers who have taken loans denominated in foreign currencies. When the local currency loses value, the cost of servicing these foreign loans increases for the borrower. This financial strain often leads to defaults, which directly compromises the cash flows of local lending banks and creates systemic vulnerability within the domestic financial sector.

6. (B) Completely abolish the minimum capital requirement and rely solely on the leverage ratio.
Regulatory reforms aim to mitigate the pro-cyclical nature of the financial system through several strategic measures. These include using conservative default probability estimates and promoting forward-looking provisioning. However, maintaining a minimum capital requirement remains essential. Relying solely on a leverage ratio while abolishing capital requirements is not a proposed method for reducing pro-cyclicality under the established Basel Committee framework.

7. (B) A financial system ensuring lasting, efficient allocation of savings to investment opportunities without major disruptions.
In economic literature, financial stability is frequently associated with the effective functioning of the savings and investment cycle. It describes a condition where the financial system facilitates a lasting and efficient allocation of savings toward productive investment opportunities. This process must occur without major disruptions, thereby supporting sustainable economic growth and maintaining public confidence in the financial infrastructure.

NODIA

(C) They should immediately draw down all backup lines to invest in long-term illiquid assets for better returns.
(D) They should transfer the management of these lines to the external statutory auditors for independent oversight.

May/June 2012

72. Consider the following statements regarding institutional and technological infrastructure in India's financial markets:
I. The Delivery vs Payment (DvP) System was implemented to enhance financial market efficiency.
II. The Clearing Corporation of India (CCI) acts as an institutional infrastructure for the market.
III. The Real Time Gross Settlement System (RTGS) mitigates settlement risks.
IV. The Structured Financial Messaging Solution (SFMS) replaces the physical cash reserve ratio requirements.
Which of the following combinations is correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, and IV only

Oct/Nov 2014

73. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): Monetary stability always guarantees financial stability in both the short run and the long run without any exceptions.
Reason (R): A stable macroeconomic environment can generate excessive optimism about future economic prospects, which often downplays the associated risks emerging therefrom.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

74. The following question consists of two statements—Assertion (A) and Reason (R). Answer this question selecting the appropriate option given below:
Assertion (A): In a liberalized financial system, market discipline plays a critical role in maintaining financial stability.
Reason (R): The adoption of Basel III eliminates the need for any internal risk management systems as capital requirements automatically cover all operational risks.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

75. An Asset/Liability Committee (ALCO) is formulating a maturity ladder to assess net funding requirements. How should readily marketable assets be treated in this ladder?
(A) They should be excluded entirely to maintain a conservative estimate.
(B) Recorded only at their original historic cost irrespective of marketability.
(C) Placed in the most distant time period to act as a long-term buffer.
(D) They should be "slotted in" to the earliest point in the maturity ladder at which they could be liquidated.

May/June 2016

76. Consider the following statements regarding the construction of a maturity ladder for liquidity management:
I. It is a device to compare cash inflows and outflows both on a day-to-day basis and over a series of specified time periods.
II. Cash inflows can be ranked by the date on which assets mature or a conservative estimate of when credit lines can be drawn down.
III. Readily marketable assets may be "slotted in" to the earliest point in the maturity ladder at which they could be liquidated.
IV. Significant interest and other cash flows should be entirely excluded from the

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responsibility remains strictly within the purview of the bank's management.

16. (A) Ensuring uninterrupted transactions, maintaining participant confidence, and preventing excessive volatility affecting real economic activity.
Financial stability is defined by several key factors within an economy. It involves ensuring that financial transactions occur without interruption and that participants maintain high confidence in the overall system. Critically, this definition emphasizes the prevention of excessive market volatility that could negatively impact real economic activity, ensuring the financial system supports rather than hinders broader economic performance.

17. (A) The Reserve Bank adopted a single indicator approach since 1998-99, relying exclusively on the cash reserve ratio.
Monetary policy procedures in India have evolved significantly over time. Since 1998-99, the Reserve Bank has moved away from a single indicator approach to a multiple indicator approach. This shift reduced the historical reliance on reserve requirements as the primary instrument of control. Subsequent changes, including the introduction of the Liquidity Adjustment Facility, allowed for daily liquidity modulation.

18. (C) 2005
The Board for Regulation and Supervision of Payment and Settlement Systems serves as an apex body for payment system oversight in India. It was constituted in 2005 to regulate and supervise the various payment and settlement systems within the country. The establishment of this board highlights the increasing importance of maintaining secure and efficient payment infrastructures for financial stability.

19. (D) Financial instability threatens sustainable growth and price stability, requiring central banks to monitor markets.
There is a strong interconnectedness between monetary policy and financial stability. Sustainable economic growth and price stability are often threatened when the financial system becomes unstable. Consequently, central banks must monitor financial markets closely to identify potential risks. While price stability is a primary objective, it does not inherently guarantee financial stability without proactive regulation and supervision.

20. (A) Low-quality borrowers selecting higher-cost loans, which eventually leads to a decline in the return flow of funds.
Adverse selection in bank lending often occurs during periods of rising interest rates. As rates increase, high-quality borrowers may withdraw from the market, leaving a pool of low-quality borrowers willing to accept higher costs. This shift increases the overall risk of the bank's loan portfolio, eventually leading to higher default rates and a decline in the return of funds.

21. (C) A guarantee from the central bank to automatically purchase all unsalable assets at book value.
Liquidity contingency planning is essential for managing institutional stress. Effective plans must include clear procedures for information flow, strategies to alter asset and liability behaviors, and methods to cover cash flow shortfalls. However, these plans do not include automatic guarantees from central banks to purchase unsalable assets at book value, as such measures would create significant moral hazard.

22. (C) 74 per cent of the paid-up capital
To support the growth and modernization of the banking sector, India adjusted its foreign investment policies. The Reserve Bank of India stipulated a maximum aggregate foreign investment limit in private sector banks. This limit, which includes investment from all foreign sources such as direct investment and portfolio investment, was set at seventy-four per cent of the bank's paid-up capital.

23. (D) Illiquidity is the inability to fund assets and meet obligations, whereas insolvency is a failed resolution of illiquidity.
Understanding the distinction between illiquidity and insolvency is vital for crisis management. Illiquidity refers to an institution's temporary inability to fund its assets or meet financial obligations as they come due. Insolvency, however, represents a more severe state where the resolution of illiquidity has failed, often because the institution's total liabilities exceed the fair value of its assets.

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May/June 2020

94. A central bank sets up a dedicated committee that meets daily before the opening of the markets to review liquidity and interest rate scenarios and advise top management. What is this committee called?
(A) Board for Financial Supervision (BFS)
(B) Standing Technical Advisory Committee
(C) Financial Markets Committee (FMC)
(D) Financial Conglomerates Cell

Oct/Nov 2015

95. A bank is evaluating its liquidity risk under Basel III. Which two specific regulatory standards must it integrate into its risk monitoring tools?
(A) The Liquidity Coverage Ratio (LCR) for short-term resilience and the Net Stable Funding Ratio (NSFR) for long-term stability.
(B) The Cash Reserve Ratio for liquidity management and the Statutory Liquidity Ratio for government security investment mandates.
(C) The Gross Non-Performing Asset Ratio for credit quality and the Provisioning Coverage Ratio for managing loan loss reserves.
(D) The Leverage Ratio for balance sheet constraints and the Capital Conservation Buffer for maintaining core equity levels.

May/June 2010

96. Under Basel III, if the capital conservation buffer is set at 2.5 per cent and the minimum total capital requirement is 8 per cent, what is the effective total capital requirement level?
(A) 8.5 per cent
(B) 9.5 per cent
(C) 10.5 per cent
(D) 11.5 per cent

Oct/Nov 2024

97. To ensure transparency in a globalized environment, the IMF created data formats. Which standard becomes applicable specifically to Fund Members who do not have access to private markets?
(A) GDDS (General Data Dissemination Standards)
(B) SDDS (Special Data Dissemination Standards)
(C) IFRS (International Financial Reporting Standards)
(D) CAMELS Rating System

May/June 2017

98. A central bank shifts from using reserve money as the sole operating target to utilizing interest rates, capital flows, inflation rate, and exchange rates to draw policy perspectives. What is this approach called?
(A) The single-pillar approach
(B) The multiple indicator approach
(C) The fixed rate repo approach
(D) The prompt corrective action framework

Oct/Nov 2005

99. To address the inherent pro-cyclicality of earlier capital regulations, what mechanism does the Basel III framework propose?
(A) Promoting purely backward-looking provisioning for credit losses.
(B) Allowing banks to shrink their capital ratios indiscriminately during economic upturns.
(C) Eliminating the requirement for common equity entirely for smaller banks.
(D) Conserving capital to build capital buffers in good times that can be drawn down in periods of stress.

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May/June 2019

100. To combat the financing of terrorism and prevent money laundering, a central bank aligns its 'Know Your Customer' (KYC) principles with the standards of which international body?
(A) International Accounting Standards Committee (IASC)
(B) International Association of Insurance Supervisors (IAIS)
(C) Committee on Payment and Settlement Systems (CPSS)
(D) Financial Action Task Force (FATF)

32. (B) Dodd-Frank Act - Divided the regulatory system in the UK into three distinct parts under the twin peaks model.
Regulatory frameworks vary by jurisdiction. The Dodd-Frank Act is a piece of American legislation designed to reform the US financial system following the global crisis. In contrast, the twin peaks model, which divides responsibilities between prudential and consumer protection authorities, is the framework adopted by the United Kingdom. These two distinct regulatory developments should not be confused with each other.

33. (B) Holding foreign currency assets in an amount equal to foreign currency liabilities.
Managing the risks associated with foreign currency positions is crucial for financial stability. To protect against the vulnerability of holding these assets, especially under pegged or fixed exchange rate regimes, a bank should aim to match its positions. Holding foreign currency assets in an amount equal to foreign currency liabilities helps mitigate the impact of sudden and sharp currency fluctuations.

34. (A) I only
The Board for Financial Supervision meets every month to oversee the performance of banks and financial institutions. It utilizes a quarterly reporting system to facilitate detailed on-site supervision and off-site monitoring. While the Governor of the Reserve Bank serves as the Chairman of this board, the assertion that the Governor serves as the Vice-Chairman is incorrect under the existing framework.

35. (P-2, Q-4, R-1, S-3)
International bodies have specialized domains. The Basel Committee on Banking Supervision formulates banking standards, while the Committee on Payment and Settlement Systems focuses on settlement issues. The Financial Action Task Force addresses money laundering and terrorism financing. Finally, the International Association of Insurance Supervisors creates principles for the insurance sector. These organizations work together to ensure comprehensive global financial regulation.

36. (C) I and III only
Under the Basel principles for liquidity risk management, a bank's board of directors holds significant oversight responsibilities. The board must approve the overall liquidity strategy and stay informed of the bank's liquidity situation through regular updates. However, the board does not personally execute daily asset and liability matching functions. That task is delegated to senior management and specialized operational committees.

37. (A) Calculating mismatches using a conservative view of liquidity, with discounts for price volatility and forced sales.
When establishing limits on cumulative cash-flow mismatches, banks must adopt a prudent and conservative approach. This involves evaluating liquid assets with appropriate discounts to account for potential price volatility. Such discounts ensure that the bank considers the lower values assets might fetch during forced sales in stressed market conditions, providing a more realistic assessment of available liquidity buffers.

38. (D) P-2, Q-4, R-1, S-3
Financial crises involve complex dynamics. Herd behavior occurs when participants imitate others without independent analysis. Contagion describes the systemic spread of a crisis due to panic and re-evaluation of ratings. Wrong way risk refers to counterparties worsening while suffering derivative losses. Spillovers occur when a crisis in one country affects others through established trade or financial market links.

39. (B) II only
SFAS 157 required assets to be valued at current market prices (mark-to-market), not historical cost, making Statement I incorrect. During financial market instability, especially in mortgage-backed securities, market values fell sharply, causing heavy losses for institutions holding them, which makes Statement II correct.

40. (D) P-3, Q-4, R-1, S-2
Different regions have established specific bodies for financial stability. The Financial Stability Oversight Council is a US agency attached to the Treasury. The United Kingdom utilizes the twin peaks model for regulation. The European

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misleading for regulators who must distinguish between healthy financial deepening and excessive, risky credit expansion.

91. (B) The stripping and reconstitution of Government securities.
The Government Securities Bill proposed mechanisms to improve the liquidity and risk allocation of the secondary market. A key feature was the stripping and reconstitution of Government securities. This process allows investors to separate a bond's individual interest payments and principal, creating separate zero-coupon securities. This enhances market flexibility and allows for better tailoring of investment portfolios to specific risk profiles.

92. (C) A simple, transparent, non-risk based measure calibrated to act as a credible supplement to risk-based requirements.
Basel III introduced a leverage ratio to address the risks of excessive balance sheet expansion. This ratio is designed as a simple and transparent measure that does not rely on complex risk-weighting models. By acting as a non-risk based backstop, it serves as a credible supplement to standard capital requirements, ensuring that banks maintain a minimum level of equity against total exposure.

93. (C) 4.5 per cent
To strengthen the banking system after the global crisis, Basel III raised the standards for high-quality capital. The new explicit minimum requirement for common equity was set at 4.5 per cent of risk-weighted assets. This requirement must be met before the application of any additional capital conservation buffers, ensuring that banks have a solid base of loss-absorbing common equity.

94. (C) Financial Markets Committee (FMC)
The Financial Markets Committee serves a vital role in the central bank's daily operations. This committee meets every morning before the markets open to review current liquidity and interest rate scenarios. By analyzing these conditions, the FMC provides essential advice to top management, helping the central bank make informed decisions regarding monetary policy and market interventions to maintain stability.

95. (A) The Liquidity Coverage Ratio (LCR) for short-term resilience and the Net Stable Funding Ratio (NSFR) for long-term stability.
Basel III introduced two primary regulatory standards for liquidity risk. The Liquidity Coverage Ratio focuses on short-term resilience by ensuring banks have enough high-quality liquid assets to survive a thirty-day stress scenario. The Net Stable Funding Ratio addresses long-term stability by requiring banks to maintain a reliable funding profile in relation to the composition of their assets and off-balance sheet activities.

96. (C) 10.5 per cent
Under the Basel III framework, banks must maintain a minimum level of capital plus an additional buffer. If the minimum total capital requirement is set at 8 per cent and a capital conservation buffer of 2.5 per cent is added, the effective total capital requirement becomes 10.5 per cent. This combined requirement ensures that banks build up extra reserves during normal economic times.

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97. (A) GDDS (General Data Dissemination Standards)
The International Monetary Fund established different data standards based on a country's market access. The General Data Dissemination Standards were specifically created for fund members who do not have access to private international capital markets. These standards provide a framework for these countries to improve the quality and transparency of their macroeconomic and financial data, eventually helping them gain market access.

98. (B) The multiple indicator approach
A central bank may transition from a narrow focus on reserve money to a broader strategy known as the multiple indicator approach. This method involves utilizing various variables, such as interest rates, capital flows, inflation rates, and exchange rates, to draw policy perspectives. This comprehensive view allows the central bank to better understand and respond to the complex dynamics of a modern economy.

49. (A) International Variables - Central Bank credit to banks, bond yields, domestic inflation.
Early warning signal frameworks categorize indicators to pinpoint specific risks. Variables like central bank credit to banks, bond yields, and domestic inflation are typically grouped under the financial or domestic macroeconomic sectors. International variables, however, generally focus on external factors such as global real GDP growth, world commodity prices, and the economic performance of major international trading partners.

50. (C) P-2, Q-4, R-3, S-1
Regulators use various models to assess financial institutions. CAMELS is the standard rating system for domestic commercial banks, while CALCS is applied to foreign banks operating in India. OSMOS provides the off-site monitoring and surveillance necessary for early warning. Additionally, banks use the Internal Capital Adequacy Assessment Process to align their risk management frameworks with their specific business plans.

51. (D) I, II, and III
Managing systemically important financial institutions involves multiple challenges and regulatory strategies. Current frameworks include capital and liquidity surcharges alongside enhanced supervision to reduce the impact of their potential failure. Identifying these institutions is difficult because their systemic importance can change over time. Effective resolution strategies are also being developed to protect taxpayer money while ensuring continued stability during a crisis.

52. (D) I, III, IV, II
India's financial sector has seen progressive institutional development over the years. The Board for Financial Supervision was established first in 1994. This was followed by the setup of the Credit Information Bureau in 2000 and the passing of the SARFAESI Act in 2002. Finally, the Board for Regulation and Supervision of Payment and Settlement Systems was constituted in 2005.

53. (C) P-3, Q-4, R-1, S-2
Basel liquidity principles address various aspects of risk management. Principle eight focuses on maintaining relationships with liability holders. Principle nine emphasizes robust contingency planning for crises. Principle twelve requires an adequate system of internal controls to manage the liquidity process. Finally, principle thirteen highlights the importance of public disclosure to manage market perceptions and maintain confidence in the financial system.

54. (C) Both I and II
The Reserve Bank of India employs specialized supervisory models for different types of institutions. Domestic commercial banks are evaluated using the CAMELS model, which focuses on capital, assets, management, earnings, liquidity, and systems. Foreign banks in India are rated using the CALCS model, which places specific emphasis on capital adequacy, asset quality, liquidity, compliance, and internal systems.

55. (A) IASC - Developing and approving international accounting standards.
International standard-setting bodies have distinct mandates. The International Accounting Standards Committee is responsible for developing and approving international accounting standards to ensure global financial transparency. Other bodies like IOSCO focus on securities regulation, while the CPSS deals with payment systems. These organizations work together to harmonize regulations across different sectors of the global financial market to maintain stability.

56. (A) Ensuring effective governance of compensation and aligning pay with prudent, long-term risk-taking.
Regulatory guidelines on executive compensation in banks are designed to promote sound risk management. The primary intent is to ensure that compensation practices are governed effectively and that variable pay is aligned with prudent, long-term risk-taking. This approach prevents executives from prioritizing short-term profits at the expense of the institution's future stability and helps mitigate systemic financial risks.

57. (B) II and III only
India remained resilient during the 2008 crisis because its growth was primarily driven by domestic demand and savings. Its financial system had minimal exposure to toxic

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74. (C) Assertion (A) is true, but Reason (R) is false.
In a liberalized financial system, market discipline is essential for maintaining overall stability. It encourages institutions to operate prudently to satisfy investors and creditors. However, the adoption of Basel III does not eliminate the need for internal risk management. Banks must still maintain robust internal systems to manage various risks, as capital requirements alone do not cover every operational eventuality.

75. (D) They should be "slotted in" to the earliest point in the maturity ladder at which they could be liquidated.
When constructing a maturity ladder for liquidity assessment, an Asset/Liability Committee must treat marketable assets strategically. Rather than excluding them, these assets should be "slotted in" at the earliest point in the ladder where they could realistically be liquidated. This approach provides a more accurate picture of available liquidity by recognizing the timeframe required to convert different assets into cash.

76. (A) I, II, and III only
A maturity ladder is an essential device for comparing daily and periodic cash flows. It allows banks to rank inflows by asset maturity or conservative estimates of credit line availability. Readily marketable assets are included based on when they can be liquidated. However, significant interest and other cash flows should also be included in the ladder to ensure a comprehensive assessment.

77. (D) Spill over or contagion effect
A spillover or contagion effect occurs when financial distress in one country spreads to others. This often happens through interconnected trade links or financial markets. If a payment failure in one nation negatively impacts the balance sheets of institutions in another, it demonstrates how localized problems can quickly become systemic issues, crossing national borders and threatening broader regional or global stability.

78. (B) I, III, IV, and V only
An effective liquidity risk control system requires regular independent reviews, a strong control environment, proper identification and evaluation of liquidity risk, and periodic review by the internal audit function. Management must also ensure that reviews are conducted independently of the activity being examined. Statement II is incorrect because liquidity risk controls should form an integral part of the bank's overall internal control system, not operate independently from it. Therefore, statements I, III, IV, and V are correct.

79. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Basel III reforms significantly increased the minimum common equity requirement to 4.5 per cent to ensure higher-quality capital. Separately, the global crisis revealed that quantitative risk models often failed to capture market risk in trading books during stressed conditions. While both statements are true and related to post-crisis regulatory changes, the failure of risk models is not the direct explanation for the equity limit.

80. (C) A discount should be applied to cover price volatility and any drop in price in the event of a forced sale.
When evaluating liquid assets for internal limit setting, banks must be conservative. A discount should be applied to the value of these assets to account for potential price volatility. This ensures that the bank's liquidity assessment considers the lower prices that might be realized during a forced sale in a stressed market, preventing an overestimation of the available funding buffer.

81. (A) I, II, III, and IV only
Early warning signal indicators are categorized to monitor different economic sectors. Capital account indicators track investment flows, while debt profile indicators focus on foreign debt. Current account variables include exchange rates, and international variables monitor global GDP growth. However, employment and unemployment rates are typically classified as real sector variables rather than fiscal variables, which focus more on government spending and deficits.

82. (A) I, II, III, and IV only
Early warning signal indicators are grouped into categories such as capital account, debt profile, current account, international variables, and fiscal indicators. Capital account indicators include FDI and short-term capital flows, while

NODIA

66. (A) Implementing systems to monitor and control liquidity across all major currencies in which the bank is active.
For banks operating across multiple jurisdictions, managing foreign currency liquidity is a complex but essential task. Global standards require these institutions to implement robust systems that can monitor and control liquidity positions across every major currency in which they are active. This comprehensive approach helps the bank manage the diverse risks and potential funding gaps associated with international operations.

67. (A) I and II only
Public investigations into the global crisis identified several core causes. These included the proliferation of high-risk, complex financial products and significant failures in corporate governance and risk management. While the repeal of the Glass-Steagall Act removed the separation between investment and depository banking, the crisis also highlighted that many credit rating agencies failed to accurately price mortgage-related risks.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
When assessing liquidity through cumulative cash-flow mismatches, banks should apply discounts to their liquid assets. This prudent adjustment is necessary because asset prices can become volatile during periods of market stress. In the event of a forced sale to meet liquidity needs, these assets may fetch significantly lower prices than their normal market value, impacting the bank's actual buffer.

69. (A) Collateral values decline, hindering recovery efforts and potentially leading to institution-wide illiquidity.
A crash in real estate prices following capital outflows has severe implications for the banking sector. As property values drop, the value of collateral held by banks for loans also declines. This depreciation hinders recovery efforts on defaulted loans and can lead to significant financial strain. Such conditions often trigger institution-wide illiquidity as the quality of the bank's assets deteriorates.

70. (A) I, II, III, and IV only
The transition to Basel norms in India involved a structured approach led by a steering committee of bank officials. Banks were required to adopt specific methods for different risks, including the standardized approach for credit risk and the basic indicator approach for operational risk. While these methods were mandated, Indian banks were not exempted from computing capital charges for market risk.

71. (A) Management must recognize that back-up lines often become unavailable or are withdrawn during times of extreme stress.
Backup credit lines are a common tool for managing potential cash flow shortfalls. However, bank management must exercise extreme caution when relying on them. During periods of severe market or institutional stress, these backup facilities can often be withdrawn or become completely unavailable. Therefore, over-reliance on such lines without considering their potential failure can leave a bank vulnerable during a crisis.

72. (A) I, II, and III only
India has significantly enhanced its financial market infrastructure through various technological and institutional initiatives. The implementation of the Delivery versus Payment system and the Real Time Gross Settlement system has mitigated settlement risks and improved efficiency. Additionally, the Clearing Corporation of India provides vital institutional support. While SFMS facilitates messaging, it does not replace statutory cash reserve requirements for banks.

73. (D) Assertion (A) is false, but Reason (R) is true.
Monetary stability does not always guarantee financial stability, as history has shown numerous exceptions. In fact, a stable macroeconomic environment can sometimes lead to excessive optimism among market participants. This sentiment often causes individuals and institutions to downplay the associated risks of their financial activities, potentially leading to the build-up of systemic vulnerabilities that eventually threaten the entire system.

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CHAPTER 17

Non-Banking Financial Institutions: Development, Regulation and Supervision

May/June 2016

1. Which statement accurately describes Systemically Important Non-Deposit accepting NBFCs (NBFC-NDSI)?
(A) They are NBFCs with an asset size of Rs. 50 Crore or more.
(B) They are NBFCs that restrict their lending strictly to government projects.
(C) They are NBFCs entirely owned by foreign institutional investors.
(D) They are NBFCs with an asset size of Rs. 500 Crore or more.

Oct/Nov 2009

2. An NBFC-Factor is fundamentally engaged in which of the following activities?
(A) Providing an online platform to bring lenders and borrowers together.
(B) Operating collective investment schemes and chit funds.
(C) Acquisition of receivables or extending loans against receivables at a discount.
(D) Undertaking the issuance of sovereign gold bonds on behalf of the government.

May/June 2023

3. Consider the following statements regarding the functional scope of banks and NBFCs:
I. Banks act as purveyors of credit covering the entire span of economic activities.
II. Non-banking financial institutions have the mandate to function across all economic activities without any sphere limitations.
Which of the above statements is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2018

4. Consider the following statements regarding the growth of financial institutions between March 31, 2009, and March 31, 2019:
I. The balance sheets of scheduled commercial banks (SCBs) grew at a CAGR of 10.7 per cent.
II. The aggregate balance sheet size of NBFCs increased from 9.3 per cent to 18.6 per cent of the aggregate balance sheet size of SCBs.
Which of the above statements is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2007

5. Which of the following accurately pairs an NBFC category with its appropriate regulatory authority?
(A) Companies running Collective Investment Schemes – IRDA
(B) Chit Funds – State Governments under the Chit Fund Act
(C) Nidhi Companies – National Housing Bank
(D) Housing Finance Companies – Securities and Exchange Board of India

Oct/Nov 2025

6. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:
Assertion (A): It is no longer enough to understand and confront the vulnerabilities of the banking sector alone to ensure financial stability.
Reason (R): Many NBFCs now rely heavily on the banking system for funds and emergency liquidity, leading to significant interconnectedness and potential shock transmission.

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debt profile indicators cover foreign debt and debt servicing. Current account indicators include the real exchange rate and terms of trade. International variables involve foreign GDP growth and global price levels. Statement V is incorrect because employment/unemployment and stock price changes are generally treated as domestic macroeconomic or financial indicators, not fiscal variables.

83. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Financial stability must be understood within the broader context of a diversifying financial sector. It is also true that the failure of a single bank or a significant swing in asset prices does not always constitute systemic instability. While both concepts are fundamental to understanding how regulators view market health, they represent separate principles rather than a direct cause-and-effect relationship.

84. (C) It invites a speculative attack on the currency, potentially causing runs on banks.
Maintaining a rigid or pegged exchange rate during periods of capital outflows and falling asset prices can be highly risky. Such a policy often invites speculative attacks on the national currency as investors bet against the peg. If successful, these attacks can cause a rapid loss of reserves and potentially trigger bank runs, leading to severe domestic financial and economic instability.

85. (C) Assertion (A) is true, but Reason (R) is false.
India managed to preserve orderly conditions in its foreign exchange market during the late 2008 pressures. This stability was supported by a resilient financial system and prudent regulatory policies. Notably, the assertion that India diluted its collateral standards is incorrect. Unlike some international markets, India maintained high standards, continuing to rely on government securities rather than unrated mortgage-backed securities for liquidity operations.

86. (A) I, II, and III only
Basel II introduced several key features, including the extension of capital definitions to holding companies and an emphasis on measuring operational and credit risk. It also allowed banks to use internal credit worthiness estimates under the IRB approach. However, Basel II is built on a three-pillar approach—minimum capital, supervisory review, and market discipline—rather than a single-pillar approach.

87. (B) Approving liquidity strategies and significant policies while ensuring senior management monitors and controls risk effectively.
Even when daily liquidity operations are delegated to specialized committees like the ALCO, the board of directors retains ultimate responsibility. The board must approve the bank's overall liquidity strategy and significant risk policies. Furthermore, they are responsible for ensuring that senior management has implemented effective systems to monitor and control liquidity risk across the entire organization, maintaining institutional safety.

NODIA

88. (A) I, II, III, and IV only
International bodies play specialized roles in global regulation. The BCBS handles banking standards, the CPSS deals with payment systems, the FATF combats money laundering, and IOSCO promotes securities regulation. While these descriptions are accurate, the International Association of Insurance Supervisors, not IFAC, is the body responsible for developing internationally endorsed principles for effective insurance regulation across different global jurisdictions.

89. (B) The real exchange rate
In an emerging market, the "Current Account" category of early warning signals focuses on external competitiveness and trade-related factors. The real exchange rate is a primary variable monitored within this category to detect potential imbalances. Other factors like foreign direct investment and short-term capital flows are typically classified under the "Capital Account," while debt service falls under the "Debt Profile."

90. (D) Assertion (A) is false, but Reason (R) is true.
The credit-to-GDP ratio is not a perfect indicator for calibrating capital buffers, especially in emerging economies. In these markets, the ratio may rise due to structural reasons like increased financial inclusion and deeper credit intermediation following economic growth. Therefore, relying solely on this ratio can be

international assets, preventing a severe domestic crisis. Furthermore, the country maintained strict collateral standards, relying on government securities. There was no dilution of these standards, which helped preserve the integrity of the banking system.

58. (A) P-4, Q-2, R-1, S-3
Basel principles define clear responsibilities for liquidity management. Principle one requires a communicated day-to-day strategy. Principle two mandates that the board of directors approve significant policies. Principle four focuses on the need for robust information systems to monitor risk. Principle five outlines the process for the ongoing measurement of net funding requirements, ensuring the bank remains sufficiently liquid.

59. (C) Both I and II
The 2008 global financial crisis provided several critical lessons for policymakers. It highlighted that maintaining price stability does not automatically ensure financial stability within an economy. Furthermore, the expansion of the subprime mortgage sector in the United States was partly encouraged by legislation like the Community Reinvestment Act, demonstrating how policy and market behavior can combine to create systemic risks.

60. (B) P-2, Q-4, R-1, S-3
Basel III introduces several tools to enhance bank resilience. The leverage ratio contains excessive expansion through non-risk based measures. The capital conservation buffer mandates building reserves during good times for use during stress. The Liquidity Coverage Ratio ensures short-term resilience against shocks. Finally, the Net Stable Funding Ratio promotes long-term stability by requiring banks to maintain a reliable funding profile.

61. (B) I, II, III, and V only
Bank contingency planning must address several critical factors to be effective. Plans should ensure uninterrupted information flows and include strategies to alter asset and liability behaviors during stress. They must also define procedures for covering cash flow shortfalls. While securitization triggers can create liquidity risk, banks should avoid excessive reliance on backup lines, as these often become unavailable.

62. (C) Assertion (A) is true, but Reason (R) is false.
The introduction of liquidity ratios like the LCR and NSFR is designed to prevent systemic crises by ensuring banks have sufficient high-quality liquid assets. While these global standards are important, the challenges faced by Indian banks differ from those in advanced economies. Indian markets have historically not experienced the same extreme levels of liquidity stress seen in advanced financial markets.

63. (B) II, III, and IV only
Modern regulatory frameworks for bank compensation aim to curb excessive risk-taking. They advocate for increasing variable pay that is aligned with long-term value creation and implementing deferral and claw-back clauses. These measures ensure that compensation is risk-aligned, preventing executives from focusing solely on short-term profits, which was a significant factor contributing to past financial instabilities and institutional failures.

64. (C) Throwing 'sand in the wheel' via taxes on inflows, as practiced by Chile in the 1980s
Countries seeking to stabilize their economies against volatile short-term capital inflows may consider imposing capital controls. This policy is often described as throwing "sand in the wheel" of international finance. A prominent historical example of this mechanism is the use of taxes on capital inflows by Chile during the 1990s, which aimed to discourage speculative and potentially destabilizing investments.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Fair value accounting significantly influenced the 2008 financial crisis. By requiring tradable assets like mortgage securities to be valued at current market prices rather than historic costs, it forced institutions to recognize massive losses when market values collapsed. This transparency, while intended to reflect true value, led to a sharp deterioration in balance sheets as the market for these assets evaporated.

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99. (D) Conserving capital to build capital buffers in good times that can be drawn down in periods of stress.
Basel III addresses the pro-cyclical nature of financial regulation by introducing capital buffers. This mechanism encourages banks to conserve capital and build up extra reserves during periods of economic growth. These accumulated buffers can then be drawn down when the economy enters a period of stress, helping to maintain credit flow and stabilize the financial system during downturns.

100. (D) Financial Action Task Force (FATF)
To ensure the integrity of the financial system, central banks align their 'Know Your Customer' principles with international standards. The Financial Action Task Force is the global body responsible for setting recommendations to combat money laundering and the financing of terrorism. Adhering to these standards helps prevent criminal activities and strengthens the overall security and transparency of domestic and international financial markets.

NODIA

Systemic Risk Board performs macro-prudential supervision for the EU. In India, the Financial Stability and Development Council serves as the apex body for maintaining domestic stability.

41. (A) I and II only
India's monetary policy has moved toward a multiple indicator approach since the late nineties. The introduction of fixed rate repos helped establish an informal corridor in the money market, improving liquidity management. While the reliance on reserve requirements has decreased, they have not been completely eliminated. They remain part of the central bank's toolkit for managing liquidity and ensuring stability.

42. (C) Identifying cycle inflection points using objective criteria in a global setting where cycles are not synchronized.
Implementing a countercyclical capital buffer presents significant practical challenges for regulators. One major difficulty is identifying the exact inflection points of an economic cycle using objective criteria. This task is complicated by the fact that economic cycles are rarely synchronized across different global regions, making it hard to determine when to build up or release capital buffers effectively.

43. (B) Principle 10 - Having a measurement, monitoring and control system for liquidity positions in major foreign currencies.
The Basel principles for liquidity risk management provide a comprehensive framework for banks. Principle ten specifically requires banks to have robust systems for measuring, monitoring, and controlling liquidity positions in all major foreign currencies. This ensures that banks can manage the unique risks associated with operating in multiple currencies and protect themselves against sudden fluctuations in foreign exchange markets.

44. (D) P-2, Q-3, R-1, S-4
Indian institutional frameworks serve specific goals. The SARFAESI Act assists banks in recovering non-performing assets, while the FRBM Act brings control to fiscal management. CIBIL facilitates the sharing of critical credit information among lenders. Lastly, the Financial Markets Committee reviews liquidity and interest rate scenarios daily before markets open, advising senior management on appropriate policy responses and market conditions.

45. (D) I, II, and III
Under the Basel principles, managing market access is vital for a bank's liquidity. This requires periodic reviews of relationships with liability holders to ensure continued funding availability. Banks must also maintain a diversified base of liabilities to avoid concentration risk. Furthermore, ensuring the capacity to sell assets when necessary provides an additional layer of security during periods of institutional or market stress.

46. (B) A simple, transparent, non-risk based leverage ratio.
The Basel III proposals include the introduction of a leverage ratio as a supplement to risk-based capital requirements. This measure is intended to be simple, transparent, and non-risk based. By acting as a credible backstop, the leverage ratio helps contain the excessive expansion of bank balance sheets, providing an additional safeguard against the limitations of complex internal risk-weighting models.

47. (B) II only
The International Monetary Fund established data dissemination standards to promote transparency. The Special Data Dissemination Standards were specifically devised for fund members who have, or might seek, access to international capital markets. In contrast, the General Data Dissemination Standards apply to those fund members who do not currently have access to private markets, helping them improve their data practices.

48. (B) P-3, Q-1, R-2, S-4
Early warning signals are grouped into several categories to monitor economic health. Capital account indicators focus on international reserves and investment flows. Debt profile indicators track foreign debt and service obligations. Current account variables include the real exchange rate and terms of trade. Finally, financial liberalization indicators monitor credit growth and interest rate spreads to detect potential systemic risks.

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(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

7. What defines the basic role of banks as financial intermediaries in the economy?
(A) They primarily channel funds from the government to individual consumers for daily expenses.
(B) They transfer surplus funds from households to sectors needing funds like corporates and government.
(C) They accept funds solely from corporate entities and disburse them to households for consumption.
(D) They restrict their financial activities exclusively to generating venture capital for new start-up enterprises.

Oct/Nov 2014

8. Match the specific type of NBFC in List-I with its defined activity in List-II.
List I: (NBFC Type)
P. NBFC-Account Aggregator (NBFC-AA)
Q. NBFC-Peer to Peer Lending Platform (NBFC-P2P)
R. Housing Finance Company (HFC)
S. Investment and Credit Company (ICC)
List II: (Defined Activity)
1. Lending and investment.
2. Financing for housing.
3. Providing an online platform to bring lenders and borrowers together.
4. Collecting and providing information about a customer's financial assets in a consolidated manner.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-2, R-3, S-4

May/June 2019

9. A tech-driven financial company operates a website that allows individuals with surplus funds to directly fund the loan requirements of individuals seeking credit, without the company taking the loans on its own balance sheet. Which NBFC classification applies to this business model?
(A) NBFC-Account Aggregator (NBFC-AA)
(B) NBFC-Peer to Peer Lending Platform (NBFC-P2P)
(C) NBFC-Micro Finance Institution (NBFC-MFI)
(D) Core Investment Company (CIC)

Oct/Nov 2006

10. Alpha Finance Private Limited applies for an NBFC registration. During assessment, it is found that out of its total capital assets of Rs. 10 crore, the financial assets account for Rs. 4 crore, and the revenue from financial assets is 40% of the gross income. Based on the principal business criteria, what will be the outcome of its application?
(A) The application will be approved because the minimum asset threshold is only Rs. 2 crore.
(B) The application will be approved provided the company appoints an additional director from the financial field.
(C) The application will be rejected because the financial assets constitute less than 50% of the total capital assets.
(D) The application will be deferred until the company achieves a CIBIL score of 800.

NODIA

May/June 2021

11. The focus of regulation and supervision on NBFCs by the Reserve Bank of India is three-fold. Which of the following correctly identifies these three primary objectives?
I. Depositor protection
II. Maximisation of shareholder wealth
III. Consumer protection
IV. Financial stability
(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, and IV only
(D) I, III, and IV only

Oct/Nov 2010

12. Consider the following statements regarding the conditions for a company to register as an NBFC with the Reserve Bank of India:
I. The minimum Net Owned Fund (NOF) requirement is Rs. 2 crore.
II. The principal business must have a financial

(B) I and III only
(C) I and II only
(D) I, II, and III

Oct/Nov 2019

62. Identify the correct pair matching an entity type with an additional parameter specifically tracked for it under the PCA framework.
(A) Core Investment Companies (CICs) – Leverage
(B) NBFC-MFI – Number of borrowers
(C) NBFC-Factor – Discount rate variance
(D) Government NBFCs – Sovereign debt ratio

May/June 2009

63. Capital Trust NBFC has an asset size of Rs. 85 crore. It wishes to initiate recovery proceedings under the SARFAESI Act against a defaulting MSME borrower for a secured debt of Rs. 25 lakh. Based on the regulatory limits prescribed as of February 12, 2021, can Capital Trust utilize the SARFAESI Act for this recovery?
(A) No, because it does not meet the minimum asset size threshold of Rs. 100 crore.
(B) Yes, because the debt amount is above the Rs. 20 lakh threshold.
(C) Yes, because all NBFCs are universally permitted to use SARFAESI for any secured debt above Rs. 10 lakh.
(D) No, because the SARFAESI Act applies only to unsecured loans provided to micro enterprises.

Oct/Nov 2011

64. Match the following NBFC classifications in List-I with their defining characteristics in List-II.
List I: (NBFC Classification)
P. NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC)
Q. NBFC-Factor
R. NBFC-Micro Finance Institution (NBFC-MFI)
S. NBFC-Infrastructure Debt Fund (NBFC-IDF)
List II: (Defining Characteristics)
1. Provides collateral-free small ticket loans to economically disadvantaged groups.
2. Acquires receivables of an assignor or extends loans against security interest of receivables at a discount.
3. Facilitates flow of long-term debt only into post-commencement operations in infrastructure.
4. Facilitates promoters/promoter groups in setting up new banks.
(A) P-3, Q-1, R-2, S-4
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

May/June 2010

65. Which of the following entities is NOT expressly excluded from the applicability of the Prompt Corrective Action (PCA) framework for NBFCs that came into effect on October 1, 2022?
(A) Non-deposit taking NBFCs classified specifically in the middle, upper, and top layers.
(B) Government Companies
(C) Primary Dealers
(D) Housing Finance Companies (HFCs)

Oct/Nov 2024

66. Match the financial parameter in List-I with its defined regulatory threshold in List-II.
List I: (Financial Parameter)
P. Minimum NOF to register as an NBFC
Q. IPO financing ceiling per borrower
R. Single borrower exposure limit for NBFC-ML and NBFC-UL
S. Minimum CET-1 capital requirement for NBFC-UL
List II: (Regulatory Threshold)
1. Rs. 1 crore
2. 9 per cent of RWAs
3. 25 per cent of Tier 1 capital
4. Rs. 2 crore
(A) P-4, Q-1, R-3, S-2
(B) P-3, Q-2, R-4, S-1
(C) P-1, Q-4, R-2, S-3
(D) P-4, Q-3, R-1, S-2

May/June 2017

67. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:
Assertion (A): The Government reduced the secured debt limit for NBFCs to take recourse to the SARFAESI Act from Rs. 50 lakh to Rs. 20 lakh.
Reason (R): The reduction is expected to improve the recoveries of NBFCs, particularly from small

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of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2025

19. A prominent industrial group intends to enter the banking sector and establish a new bank. Under the broad categories of NBFCs, which type of entity is specifically designed to facilitate promoters or promoter groups in setting up new banks?
(A) Core Investment Company (CIC)
(B) NBFC-Infrastructure Finance Company (NBFC-IFC)
(C) NBFC-Peer to Peer Lending Platform (NBFC-P2P)
(D) NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC)

Oct/Nov 2019

20. Match the NBFC category in List-I with its primary activity in List-II.
List I: (NBFC Category)
P. NBFC-Micro Finance Institution (NBFC-MFI)
Q. NBFC-Factor
R. NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC)
S. Mortgage Guarantee Company (MGC)
List II: (Primary Activity)
1. Undertaking of mortgage guarantee business.
2. Facilitation of promoters/promoter groups in setting up new banks.
3. Providing collateral free small ticket loans to economically disadvantaged groups.
4. Acquisition of receivables of an assignor or extending loans against security interest of receivables.
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-2, R-3, S-4

May/June 2009

21. Under which chapters of the Reserve Bank of India Act, 1934, is the Reserve Bank entrusted with the responsibility of regulating and supervising NBFCs?
(A) Chapter II A and B and Chapter IV
(B) Chapter IV A and B and Chapter VI
(C) Chapter III B and C and Chapter V
(D) Chapter I A and B and Chapter III

Oct/Nov 2011

22. Which of the following is NOT a stipulated requirement for a company applying to the Reserve Bank of India for an NBFC license?
(A) Registration as a company under the Companies Act, 1956, or 2013.
(B) Maintenance of a physical branch network of at least ten branches.
(C) The CIBIL (Credit Information Bureau Limited) records of the company should be clean.
(D) It should have at least 1 Director from the financial field or a senior banker as a director.

May/June 2010

23. Which of the following pairs of NBFC types and their respective regulatory bodies is incorrect?
(A) Stock-Broking Companies – SEBI
(B) Venture Capital Companies – SEBI
(C) Mutual Funds – SEBI
(D) Chit Fund Companies – Securities and Exchange Board of India

Oct/Nov 2024

24. Consider the following statements mapping NBFC categories to their respective activities:
I. NBFC-MFI provides collateral-free small ticket loans to economically disadvantaged groups.
II. Mortgage Guarantee Company (MGC) undertakes mortgage guarantee business.
III. HFC focuses exclusively on financing of the infrastructure sector.
IV. NBFC-IFC is engaged in financing the housing sector.
V. ICC is engaged in lending and investment activities.
Which combination of statements is correct?
(A) II, III, and IV only
(B) I, III, IV, and V only
(C) I, II, III, IV, and V
(D) I, II, and V only

May/June 2017

25. Which of the following best defines the primary activity of a Core Investment Company (CIC)?
(A) Collecting and providing information about a customer's financial assets in a consolidated manner.

NODIA

capital quality. To comply with the scale-based framework, what is the minimum percentage of Risk Weighted Assets (RWAs) that MegaFin Ltd must hold specifically as Common Equity Tier (CET) 1 capital?
(A) 5.5 per cent
(B) 7 per cent
(C) 9 per cent
(D) 12 per cent

May/June 2019

51. What is the primary rationale behind the RBI introducing restrictions on an HFC's exposure to its group companies engaged in the real estate business?
(A) To force real estate developers to source their funding exclusively from foreign direct investments.
(B) To artificially inflate the net owned fund requirements of small scale HFCs.
(C) To transfer all real estate lending portfolios directly to Scheduled Commercial Banks.
(D) To ensure an arm's length relationship and address concerns related to double lending.

Oct/Nov 2006

52. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:
Assertion (A): The Reserve Bank of India interacts and co-ordinates with State Governments on issues related to non-banking financial institutions.
Reason (R): Co-ordination is required to pass State Legislations aimed at curbing unauthorized and fraudulent financial activities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2021

53. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:
Assertion (A): Under the scale-based regulatory framework, the top layer of the pyramid is proposed to remain empty by default.
Reason (R): The Reserve Bank aims to keep this layer vacant unless it determines that a specific NBFC in the upper layer poses significant systemic risk necessitating bespoke higher regulatory requirements.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

54. Match the features of the Special Liquidity Scheme (SLS) listed in List-I with their corresponding details in List-II.
List I: (Feature of the SLS)
P. Total scheme corpus announced by Government
Q. Total amount disbursed under the scheme
R. Instrument purchased by SPV
S. Residual maturity of the instruments
List II: (Details)
1. Commercial papers (CPs) / non-convertible debentures (NCDs)
2. Rs. 30,000 crore
3. Up to 90 days
4. Rs. 7,126 crore
(A) Rs. 7,126 crore
(B) Up to 90 days
(C) P-2, Q-4, R-1, S-3
(D) Rs. 30,000 crore

May/June 2005

55. Which of the following policy changes was NOT introduced as part of the scale-based regulatory framework for NBFCs?
(A) Aligning NPA classification to an overdue period of more than 90 days for all NBFC categories.
(B) Implementation of an Internal Capital Adequacy Assessment Process (ICAAP) proportionate to scale.
(C) Exemption of NBFC-BLs from complying with any future NPA glide paths provided by the regulator.
(D) Imposition of a ceiling of Rs. 1 crore per borrower on financing IPO subscriptions.

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mandates regarding the compliance function. By which deadline was Apex Finance required to appoint a Chief Compliance Officer (CCO) and put in place a Board-approved compliance policy?
(A) October 1, 2022
(B) April 1, 2023
(C) October 1, 2023
(D) March 31, 2026

May/June 2006

33. The Reserve Bank of India plays an active role in the development of NBFCs by undertaking various activities. Which of the following are included in these activities?
I. Co-ordination with State Governments to pass State Legislations to curb unauthorized activities.
II. Promoting Self-Regulatory Organization (SRO) for NBFC-MFI.
III. Conducting training programmes for personnel of NBFCs, State Police, and auditors.
IV. Directly managing the daily credit disbursement operations of all NBFC-NDSIs.
Which combination of statements is correct?
(A) II, III, and IV only
(B) I, II, and III only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2017

34. Horizon NBFC availed funds amounting to Rs. 100 crore through the Special Liquidity Scheme (SLS) implemented via a Special Purpose Vehicle (SPV). Horizon's management decides to allocate Rs. 60 crore of this amount to issue new vehicle loans and Rs. 40 crore to repay its existing matured commercial paper obligations. Does this action align with the scheme's guidelines?
(A) Yes, because SLS funds are meant to promote credit expansion in the retail sector.
(B) Yes, provided the new vehicle loans have a residual maturity of less than 90 days.
(C) No, because the entire amount must be transferred to an escrow account supervised by the National Housing Bank.
(D) No, because proceeds received under the SLS must be used solely for extinguishing existing liabilities.

May/June 2008

35. What is the fundamental principle underpinning the introduction of the four-layered scale-based regulatory framework for NBFCs?
(A) Proportionality, linking regulatory intensity to the scale and risk of the NBFC.
(B) Universal banking, ensuring all financial institutions are treated with identical rules.
(C) Absolute deregulation aimed at encouraging the growth of various shadow banking activities.
(D) Statutory monopoly, aiming to consolidate all operational NBFCs into a single unit.

Oct/Nov 2013

36. The revised regulatory framework issued for Housing Finance Companies (HFCs) on October 22, 2020, incorporated several major changes. Which of the following were included in these changes?
I. Defining housing finance and principal business criteria for HFCs.
II. Increasing the net owned funds (NOF) requirement from Rs. 10 crore to Rs. 20 crore.
III. Restrictions on exposure to group companies engaged in the real estate business.
IV. Introduction of regulations on Liquidity Coverage Ratio (LCR).
V. Regulatory guidance on provisioning and capital for Ind-AS implementing HFCs.
Which combination of statements is correct?
(A) I, II, III, IV, and V
(B) I, II, and III only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2015

37. The Reserve Bank of India is empowered under the RBI Act 1934 to take punitive action against NBFCs if the situation warrants. Which of the following best represents the scope of these punitive actions?
(A) Cancelling Registration, issuing prohibition orders, and filing winding up petitions.
(B) Providing guaranteed bailouts using the consolidated funds of the central government.
(C) Mandating the automatic conversion of the NBFC into a Scheduled Commercial Bank unit.

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flow of more than 50% of the total capital asset.

III. The company must have at least three Directors from the financial field or senior bankers.

Which of the statements given above is/are correct?

(A) II and III only
(B) I and III only
(C) I and II only
(D) I, II, and III

May/June 2005

13. What is the fundamental function of an NBFC-Account Aggregator (NBFC-AA)?

(A) Consolidating and retrieving a customer's financial asset data for the user or third parties.
(B) Facilitating specific long-term debt instruments focused primarily on urban housing development sectors.
(C) Providing collateral-free micro-loans directly to retail borrowers from economically marginalized communities.
(D) Managing diverse mutual fund portfolios and early-stage venture capital for institutional investors.

Oct/Nov 2022

14. Consider the following statements regarding NBFCs registered with other regulatory bodies:

I. Stock-Broking and Merchant Banking Companies are regulated by SEBI.
II. Nidhi Companies are supervised by the National Housing Bank (NHB).
III. Insurance Companies fall under the regulatory framework of IRDA.
IV. Chit Fund Companies are entirely regulated by the Reserve Bank of India.

Which combination of statements is correct?

(A) I and II only
(B) II, III, and IV only
(C) I and III only
(D) I, II, III, and IV

May/June 2018

15. Identify the incorrect statement regarding the interconnectedness and funding of the NBFC sector as of end-March 2020.

(A) NBFCs typically operate as the largest net borrowers of liquidity within the broader domestic financial system.
(B) More than half of the total funds borrowed by these entities are sourced directly from Scheduled Commercial Banks.
(C) Insurance Companies and various Asset Management Companies are recognized as prominent lenders to the sector.
(D) They rely solely on foreign investment for liquidity and have removed any dependency on domestic banks.

Oct/Nov 2016

16. Which operational restriction fundamentally distinguishes non-deposit accepting Non-Banking Financial Companies (NBFCs) from scheduled commercial banks?

(A) They cannot accept public deposits or act as authorities for issuing cheques and drafts.
(B) They are completely prohibited from lending to the infrastructure and real estate sectors.
(C) They cannot operate without the direct financial participation of the respective State Governments.
(D) They must obtain prior approval from the Securities and Exchange Board of India for every loan disbursed.

May/June 2014

17. Between March 31, 2009, and March 31, 2019, at what compounded annual growth rate (CAGR) did the total assets of NBFCs grow?

(A) 18.6 per cent
(B) 9.3 per cent
(C) 10.7 per cent
(D) 24.4 per cent

Oct/Nov 2007

18. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:

Assertion (A): Certain non-deposit accepting NBFCs are classified as Systemically Important NBFCs (NBFC-NDSI).

Reason (R): These NBFCs possess an asset size of Rs. 500 Crore or more and have the potential to impact the financial stability of the country.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation

NODIA

Oct/Nov 2009

44. From which date were the guidelines for the scale-based regulatory framework for NBFCs made effective?
(A) April 1, 2022
(B) April 1, 2023
(C) October 22, 2021
(D) October 1, 2022

May/June 2023

45. Arrange the following regulatory events related to the evolution of the NBFC/HFC framework in chronological order:
I. Issuance of the revised regulatory framework for HFCs to ensure smooth transition.
II. Transfer of regulation of HFCs from the National Housing Bank (NHB) to the Reserve Bank of India.
III. Further lowering of the secured debt limit for NBFCs under the SARFAESI Act to Rs. 20 lakh.
IV. Initial permission for NBFCs with an asset size of Rs. 100 crore and above to use the SARFAESI Act for debts of Rs. 50 lakh and above.
Which combination of statements is correct?
(A) II, IV, I, III
(B) IV, II, III, I
(C) II, I, IV, III
(D) IV, III, II, I

Oct/Nov 2018

46. An NBFC facing an abrupt halt in cash inflows requires immediate liquidity to honor its obligations. Given the current interconnectedness of the financial system, to which sector is this NBFC most likely to turn for emergency funds, potentially transmitting shocks?
(A) Unregulated shadow banking entities
(B) The banking system, including Scheduled Commercial Banks
(C) The Chit Fund network operating at the state level
(D) The foreign exchange currency markets exclusively

May/June 2007

47. Which of the following is a correct statement regarding the operational mechanics of the Special Liquidity Scheme (SLS) for NBFCs and HFCs?
(A) The scheme prohibited secondary market purchases of debt instruments.
(B) It permitted primary and secondary market purchases of investment grade CPs and NCDs.
(C) The proceeds received under the SLS could be used by NBFCs for generating new loan assets.
(D) Under the scheme, 80 per cent of the total disbursed amount went directly to Housing Finance Companies (HFCs).

Oct/Nov 2025

48. Arrange the layers of the scale-based regulatory framework for NBFCs in increasing order of regulatory intensity:
I. Upper Layer (NBFC-UL)
II. Top Layer
III. Base Layer (NBFC-BL)
IV. Middle Layer (NBFC-ML)
Which combination of statements is correct?
(A) III, IV, I, II
(B) III, I, IV, II
(C) IV, III, I, II
(D) III, IV, II, I

May/June 2012

49. According to the guidelines on the Compliance Function and the Role of Chief Compliance Officer (CCO), the formulated compliance policy should comprehensively address which of the following?
I. Compliance risk identification, assessment, and mitigation.
II. Scope and coverage of the compliance function.
III. Responsibilities of the Board and Senior Management.
IV. Appointment of the CCO with 'Fit & Proper' criterion.
Which combination is correct?
(A) I, II, III, and IV
(B) I, II, and III only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2014

50. MegaFin Ltd has been categorized as an NBFC-UL (Upper Layer) by the Reserve Bank of India due to its systemic footprint. While its overall CRAR is adequately maintained above 15%, the regulator notes an imbalance in its

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(D) Transferring regulatory oversight permanently to the specific Ministry of Corporate Affairs.

Oct/Nov 2012

38. Zenith Credit, an NBFC-ML, assesses a loan application from a large corporate conglomerate. Under the scale-based framework, what is the maximum permissible credit exposure Zenith Credit can take for a group of connected borrowers, and what is the base capital metric used for this calculation?
(A) 25 per cent of its total asset size.
(B) 40 per cent of its owned fund.
(C) 25 per cent of its Tier 1 capital.
(D) 40 per cent of its Tier 1 capital.

May/June 2011

39. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:
Assertion (A): NBFCs in the Upper and Middle layers are directed to formulate a comprehensive compliance policy and appoint a Chief Compliance Officer (CCO).
Reason (R): This prescription aims to embed the compliance function within the organisation's corporate governance framework, taking into account the scale of operations and risk profile.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

40. According to the scale-based regulatory framework for NBFCs, which statement accurately defines the composition of the Base Layer (NBFC-BL)?
(A) It consists of all deposit-taking NBFCs irrespective of their asset size.
(B) It comprises NBFCs specifically identified by the Reserve Bank based on a scoring methodology.
(C) It includes systematically important NBFCs with an asset size of Rs. 1,000 crore and above.
(D) It includes NBFC-NDs with assets below Rs. 1,000 crore and certain specific activity NBFCs.

May/June 2022

41. Shelter Finance, an HFC established prior to the regulatory transition, possessed a Net Owned Fund (NOF) of Rs. 12 crore. Following the revised regulatory framework issued by the RBI in October 2020, what immediate strategic financial adjustment must Shelter Finance plan to remain compliant regarding its capital base?
(A) It must reduce its NOF to Rs. 10 crore and return surplus capital to shareholders.
(B) It must undertake capital augmentation to increase its NOF to at least Rs. 20 crore.
(C) It must maintain its NOF but issue compulsory convertible debentures worth Rs. 50 crore.
(D) It must convert its operational model to an NBFC-MFI immediately.

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Oct/Nov 2023

42. Which of the following is NOT among the current focus areas of the Reserve Bank of India for NBFCs?
(A) Identifying and reviewing regulatory frameworks to bridge gaps with other financial intermediaries.
(B) Enhancing disclosure and transparency in the sector.
(C) Permitting unregulated shadow banking to expand to maximize the reach of financial inclusion.
(D) Conducting public awareness campaigns on unauthorized acceptance of deposits through press advertisements.

May/June 2016

43. To address financial stability concerns arising from capital market volatility, the scale-based regulatory framework instituted a cap on loans granted for subscribing to initial public offers (IPOs). What is the maximum limit of such financing allowed per individual borrower?
(A) Rs. 50 lakh
(B) Rs. 1 crore
(C) Rs. 5 crore
(D) Rs. 10 crore

Oct/Nov 2022

56. Which of the following accurately describes a current focus of the Reserve Bank of India concerning NBFCs?

(A) Coordinating with sector regulators to check unauthorized activities and streamline the sector.

(B) Deregulating the sector to allow unfiltered access to various shadow banking activities.

(C) Eliminating Off-Site Reporting requirements to reduce the compliance burden on Top Layer NBFCs.

(D) Encouraging NBFCs to operate strictly offline without leveraging digital technology or analytics.

May/June 2018

57. Consider the following statements regarding the utilization and disbursement of the Special Liquidity Scheme (SLS):

I. Out of the total disbursed amount of Rs. 7,126 crore, the majority of the funds were directed via non-convertible debentures (NCDs).

II. Of the total disbursed amount, approximately 80 per cent went to HFCs and the rest to NBFCs.

Which of the above statements is/are correct?

(A) Only I is correct

(B) Only II is correct

(C) Both I and II are correct

(D) Neither I nor II is correct

Oct/Nov 2016

58. Consider the following statements regarding the Middle Layer (NBFC-ML) under the scale-based regulatory framework:

I. It mainly includes all deposit taking NBFCs and non-deposit taking NBFCs with an asset size of Rs. 1,000 crore and above.

II. The purpose of this layer is to increase the areas of regulatory arbitrage between banks and NBFCs to foster aggressive growth.

Which of the above statements is/are correct?

(A) Only I is correct

(B) Only II is correct

(C) Both I and II are correct

(D) Neither I nor II is correct

May/June 2014

59. Identify the incorrect statement regarding the Compliance Function and Role of Chief Compliance Officer (CCO) in NBFCs.

(A) The guidelines apply to NBFCs in the Upper Layer and Middle Layer.

(B) The compliance function is intended to act as an integral part of effective governance.

(C) NBFC-ML units were required to establish the compliance framework and appoint a CCO by April 1, 2023.

(D) The CCO must be appointed under a stringent 'Fit & Proper' criterion as defined by the RBI.

Oct/Nov 2007

60. Consider the following regulatory limits and requirements introduced under the scale-based framework:

I. The capital to risk-weighted assets ratio (CRAR) requirement is 15 per cent.

II. NBFC-UL must maintain Common Equity Tier (CET) 1 capital of at least 9 per cent of RWAs.

III. A single exposure limit of 25 per cent and group exposure limit of 40 per cent for NBFC-ML and NBFC-UL.

IV. Concentration limits will be determined with reference to the NBFC's owned fund rather than Tier 1 capital.

V. A ceiling of Rs. 1 crore per borrower has been established on financing of subscription to initial public offers (IPO).

Which combination of statements is correct?

(A) I, III, IV, and V only

(B) I, II, III, and V only

(C) II, III, IV, and V only

(D) I, II, III, IV, and V

May/June 2025

61. Consider the following statements regarding the Board for Financial Supervision (BFS):

I. It was constituted in November 1994.

II. It acts as the integrated supervisor for the financial system covering SCBs, AIFIs, Co-operative banks, and NBFCs.

III. During the period from July 2020 to November 2021, the BFS held exactly 5 meetings to discuss supervisory initiatives.

Which of the statements given above is/are correct?

(A) II and III only

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(B) Investment in equity shares, preference shares, debt, or loans of group companies.
(C) Financing of long-term debt into post-commencement operations of infrastructure projects.
(D) Acquisition of receivables of an assignor at a discount.

Oct/Nov 2005

26. Which legislative framework explicitly authorises the Reserve Bank of India to exercise regulatory and supervisory power over the banking system?
(A) The State Financial Corporations Act, 1951, governing provincial credit units.
(B) The Securities Contracts (Regulation) Act, 1956, regarding market exchanges.
(C) The Foreign Exchange Management Act, 1999, covering international trade.
(D) The Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934.

May/June 2020

27. In absolute terms, what was the total asset size of the NBFC sector (including HFCs) as of end-March 2020?
(A) Rs. 51.47 lakh crore
(B) Rs. 30,000 crore
(C) Rs. 18.6 lakh crore
(D) Rs. 10.7 lakh crore

Oct/Nov 2015

28. Match the type of NBFC in List-I with its corresponding regulatory body in List-II.
List I: (Type of NBFC)
P. Insurance Companies
Q. Housing Finance Companies (HFCs)
R. Merchant Banking Companies
S. Nidhi Companies
List II: (Regulatory Body)
1. National Housing Bank (NHB)
2. Ministry of Corporate Affairs (MCA)
3. Insurance Regulatory and Development Authority of India (IRDA)
4. Securities and Exchange Board of India (SEBI)
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-4, R-1, S-2

May/June 2013

29. A financial institution exclusively facilitates the flow of long-term debt into infrastructure projects that have already completed at least one year of satisfactory performance post-commencement. Under which NBFC category does this institution operate?
(A) NBFC-Infrastructure Finance Company (NBFC-IFC)
(B) Investment and Credit Company (ICC)
(C) NBFC-Infrastructure Debt Fund (NBFC-IDF)
(D) NBFC-Factor

Oct/Nov 2021

30. Match the NBFC category in List-I with its designated activity in List-II.
List I: (NBFC Category)
P. Investment and Credit Company (ICC)
Q. NBFC-Infrastructure Finance Company (NBFC-IFC)
R. Core Investment Company (CIC)
S. NBFC-Infrastructure Debt Fund (NBFC-IDF)
List II: (Designated Activity)
1. Facilitation of flow of long-term debt only into post commencement operations in infrastructure projects.
2. Financing of infrastructure sector.
3. Lending and investment.
4. Investment in equity shares, preference shares, debt, or loans of group companies.
(A) P-2, Q-3, R-1, S-4
(B) P-4, Q-1, R-3, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-3, Q-2, R-4, S-1

May/June 2024

31. To establish a structured self-governance mechanism and enforce ethical lending practices within the microfinance sector, the RBI promotes the formation of a specific entity for NBFC-MFIs. What is this entity called?
(A) Internal Capital Adequacy Assessment Process (ICAAP)
(B) Special Purpose Vehicle (SPV)
(C) Self-Regulatory Organization (SRO)
(D) Board for Financial Supervision (BFS)

Oct/Nov 2008

32. Apex Finance, an NBFC-UL, is restructuring its internal governance to align with the latest RBI

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businesses and micro and small enterprises.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

68. An NBFC in the upper layer faces severe PCA constraints due to a drop in its Tier I capital ratio. Beyond mandatory capital infusions, the RBI decides to invoke discretionary actions. Which of the following falls under the discretionary actions prescribed by the PCA framework?
(A) Forcing the NBFC to permanently waive all outstanding micro-loans.
(B) Restricting branch expansion, capital expenditure, and staff expansion.
(C) Mandating the automatic nationalisation of the entity without shareholder consent.
(D) Allowing the NBFC to temporarily suspend all reporting to the Credit Information Bureau.

May/June 2020

69. Consider the following statements regarding the financial health of the NBFC sector during the year 2020-21:
I. Asset quality and capital buffers improved during the year.
II. Profitability of the NBFCs improved during the same period.
Which of the above statements is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2015

70. Under the guidelines for the appointment of auditors in regulated entities, an increased emphasis is placed on a specific governance body within the organization. Which body is given greater responsibility regarding assessing the independence of auditors, their appointment, and performance review?
(A) The Ministry of Corporate Affairs and the Comptroller and Auditor General.
(B) The external credit rating agencies engaged by the entity.
(C) The Board of Directors, Audit Committee, or Local Management Committee.
(D) The Indian Banks' Association (IBA).

May/June 2013

71. Review the following statements encompassing multiple regulatory domains for NBFCs:
I. The threshold for enforcing security interests under SARFAESI was lowered to Rs. 20 lakh for eligible NBFCs.
II. NBFC-BLs are entirely exempt from the overdue period norm of more than 90 days for NPA classification.
III. NBFC-UL entities are mandated to maintain CET-1 capital of at least 9 per cent of RWAs.
IV. Dividend payout eligibility is dynamically linked to an NBFC's capital adequacy and net NPA levels.
V. The PCA framework applies universally to all government-owned NBFCs without exception.
Which combination correctly identifies the valid regulatory provisions?
(A) I, III, and IV only
(B) II, IV, and V only
(C) I, II, III, and V only
(D) I, III, IV, and V only

Oct/Nov 2021

72. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:
Assertion (A): The RBI specified a ceiling on the maximum dividend pay-out ratio for NBFCs in its June 2021 guidelines.
Reason (R): This ceiling aims to ensure that NBFCs retain sufficient capital to absorb potential shocks and maintain financial resilience given their increasing systemic significance.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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Oct/Nov 2023

84. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:

Assertion (A): In the initial phase of the COVID-19 pandemic, NBFCs experienced a substantial increase in the cost of their borrowings.

Reason (R): The impact of the lockdown on the real sector spilled over to financial markets, restricting access to market funding for NBFCs.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2016

85. Which of the following represents a mandatory action under the PCA framework when an NBFC breaches the prescribed risk thresholds?

(A) Ordering the complete closure of all rural branches.
(B) Allowing a temporary exemption from maintaining the Statutory Liquidity Ratio.
(C) Imposing restrictions on dividend distribution.
(D) Transferring the management control to a rival NBFC.

Oct/Nov 2009

86. On June 24, 2021, guidelines on dividend distribution by NBFCs were issued to ensure prudence. To which specific financial metrics were the eligibility criteria for dividend pay-out firmly linked?

(A) The gross income growth and total branch network size.
(B) The capital adequacy and the net NPA levels of the NBFC.
(C) The absolute value of liquid assets and the geographic location of the headquarters.
(D) The volume of daily trading in the commercial paper market and deposit mobilization rates.

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May/June 2023

87. Match the layers of the scale-based regulatory framework in List-I with their targeted entities in List-II.

List I: (Regulatory Layer)
P. Base Layer (NBFC-BL)
Q. Middle Layer (NBFC-ML)
R. Upper Layer (NBFC-UL)
S. Top Layer

List II: (Targeted Entities)
1. Includes all deposit-taking NBFCs and NBFC-NDs with an asset size of Rs. 1,000 crore and above.
2. Comprises certain NBFCs specifically identified by the Reserve Bank based on a scoring methodology.
3. Proposed to remain empty unless a specific NBFC poses significant systemic risk.
4. Consists of NBFC-NDs with asset size below Rs. 1,000 crore and certain specific activity NBFCs.

(A) Includes all deposit-taking NBFCs and NBFC-NDs with an asset size of Rs. 1,000 crore and above.
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-3, S-1

Oct/Nov 2018

88. The Audit Committee of an HFC proposes to appoint a new audit firm. A major shareholder insists on appointing an affiliate firm of their own corporate conglomerate to save costs. According to the April 2021 RBI guidelines on auditor appointments, how should the Audit Committee respond?

(A) Accept the shareholder's proposal, as cost minimization is the primary directive of the guidelines.
(B) Reject the proposal to ensure auditor independence and avoid potential conflicts of interest.
(C) Accept the proposal temporarily for one financial year pending RBI approval.
(D) Delegate the decision entirely to the local municipal authority.

May/June 2007

89. From Q2:2020-21 onwards, aided by timely monetary, fiscal, and regulatory policy support, many NBFCs began to recover from the initial pandemic shock. What key strategic adaptation

Which combination of statements is correct?
(A) II, III, and IV only
(B) I, III, and IV only
(C) I, II, III, and IV
(D) I, II, and III only

May/June 2015

79. Consider the following statements describing the impact of the COVID-19 pandemic on the NBFC sector during Q1:2020-21:
I. NBFCs witnessed a sharp drop in collections and disbursements.
II. There was a substantial increase in the cost of their borrowings as access to market funding became restricted.
III. The provision of moratorium successfully increased their immediate cash inflows, resolving liquidity issues.
Which of the statements given above is/are correct?
(A) II and III only
(B) I and II only
(C) I and III only
(D) I, II, and III

Oct/Nov 2012

80. A Core Investment Company (CIC) with substantial group exposures reports a sharp deterioration in its asset quality, breaching the thresholds set by the RBI. Under the PCA framework, which of the following actions may the RBI predictably mandate to rectify the situation?
(A) Compel the CIC to immediately convert into an NBFC-MFI.
(B) Force the CIC to surrender its NBFC license and register as a Chit Fund.
(C) Instruct the CIC to increase its leverage to artificially boost adjusted net worth.
(D) Restrict dividend distributions and require promoters to infuse additional capital.

May/June 2011

81. Consider the following statements reflecting the systemic importance and growth of the NBFC sector:
I. NBFCs have become comparable in size to some of the private sector banks.
II. As of end-March 2020, more than half of the funds provided to NBFCs originated from the capital markets exclusively.
III. The sector leverages non-traditional players adopting tech-based innovative business models.
IV. The aggregate balance sheet size of NBFCs increased significantly relative to SCBs between 2009 and 2019.
Which combination of statements is correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2020

82. To enhance the resilience of regulated entities, the Reserve Bank endeavours to constantly improve its supervisory functions. Which of the following approaches is predominantly adopted by the RBI to better focus on risky practices and deploy appropriate tools?
(A) A calibrated supervisory approach designed to bring required modularity and scalability.
(B) A uniform, one-size-fits-all inspection protocol for all financial entities.
(C) A fully delegated supervisory model where external auditors conduct all on-site examinations.
(D) A retroactive regulatory mechanism that applies penalties only after a default occurs.

May/June 2022

83. Consider the following statements concerning the Prompt Corrective Action (PCA) framework for NBFCs implemented by the RBI:
I. It came into effect from October 1, 2022, based on the financials as of end-March 2022.
II. It is applicable to all deposit-taking NBFCs excluding government NBFCs.
III. It applies to all non-deposit taking NBFCs in the base layer.
IV. NBFCs not accepting public funds and primary dealers are excluded from this framework.
V. Housing Finance Companies (HFCs) are included within this specific PCA framework.
Which combination of statements accurately reflects the applicability and exclusions?
(A) II, III, and V only
(B) I, II, IV, and V only
(C) I, II, III, IV, and V
(D) I, II, and IV only

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that cater to various consumer needs across the economy while remaining under the regulatory umbrella.

9. (B) NBFC-Peer to Peer Lending Platform (NBFC-P2P)
Peer-to-peer lending platforms utilize technology to facilitate direct credit transactions between individuals without holding the debt on their own books. This model enables lenders with surplus cash to fund the requirements of borrowers seeking loans through an online marketplace. The intermediary serves as a facilitator, matching supply and demand for credit while streamlining the documentation and disbursement processes.

10. (C) The application will be rejected because the financial assets constitute less than 50% of the total capital assets.
Registration as a non-banking financial company requires meeting the principal business criteria defined by the regulator. A company must ensure its financial assets constitute more than fifty percent of its total assets and that income from these assets exceeds fifty percent of gross income. Failing to meet these thresholds results in rejection, as the entity does not qualify as a financial institution.

11. (D) I, III, and IV only
The regulatory framework for non-banking entities is designed to maintain a healthy and secure financial ecosystem. Primary objectives include protecting the interests of depositors, ensuring fair treatment for consumers, and safeguarding the overall stability of the national financial system. While shareholder wealth is important for corporate management, it is not a direct regulatory goal for the central bank's supervision.

12. (C) I and II only
To obtain a license, a company must be legally incorporated and possess a minimum Net Owned Fund of two crore rupees. Furthermore, it must satisfy the principal business criteria where financial assets and income both exceed fifty percent of the totals. While professional management is required, there is no specific statutory mandate for exactly three financial-sector directors to be appointed.

13. (A) Consolidating and retrieving a customer's financial asset data for the user or third parties.
Account aggregators act as data intermediaries that facilitate the sharing of financial information with the customer's consent. They do not lend money themselves but instead provide a consolidated view of a user's assets across various financial institutions. This service simplifies the process of data retrieval and sharing, making it easier for consumers to access credit and other financial products.

14. (C) I and III only
Not all non-banking financial entities are regulated by the Reserve Bank. Stock-broking and merchant banking companies fall under the jurisdiction of the Securities and Exchange Board of India. Similarly, insurance companies are governed by the Insurance Regulatory and Development Authority. Nidhi companies are supervised by the Ministry of Corporate Affairs, while chit funds are under State Government control through specific legislation.

15. (D) They rely solely on foreign investment for liquidity and have removed any dependency on domestic banks.
NBFCs are deeply integrated into the domestic financial ecosystem as significant borrowers. They rely heavily on scheduled commercial banks for approximately forty-five percent of their total borrowings, alongside funding from insurance companies and mutual funds. The assertion that they depend solely on foreign investment is incorrect, as their operations are primarily sustained through diverse sources within the Indian financial markets.

16. (A) They cannot accept public deposits or act as authorities for issuing cheques and drafts.
A fundamental distinction between non-banking companies and banks lies in their transactional capabilities. NBFCs are prohibited from accepting demand deposits and cannot issue cheques drawn on themselves. They do not form part of the payment and settlement system, which is a core function reserved for banks. These restrictions define the specific role of NBFCs as specialized credit intermediaries.

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did many NBFCs undertake during this revival phase?

(A) They completely abandoned digital platforms to focus on traditional face-to-face lending.

(B) They recalibrated business strategies by leveraging digital technology and data analytics.

(C) They transitioned entirely away from lending activities to focus solely on fee-based advisory services.

(D) They ceased all operations in the unbanked sections of society to minimize risk.

Oct/Nov 2025

90. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:

Assertion (A): In the Prompt Corrective Action (PCA) framework for NBFCs, leverage is tracked as an additional key monitoring parameter specifically for Core Investment Companies (CICs).

Reason (R): CICs primarily engage in investing in group companies and their risk profile demands tracking of leverage, alongside capital (adjusted net worth/aggregate risk weighted assets) and asset quality.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

91. An NBFC classified under the Upper Layer (NBFC-UL) formulates its compliance policy as mandated. The Board must decide on the reporting lines for the newly appointed Chief Compliance Officer (CCO). Based on the comprehensive principles of compliance functions prescribed by the RBI, which arrangement best ensures the CCO's independence and effectiveness?

(A) Reporting directly to the Head of Sales and Marketing to ensure regulatory alignment with revenue targets.

(B) Ensuring lines facilitate oversight by Top Management, the Board, and relevant Committees.

(C) Reporting strictly to external statutory auditors without internal board interaction.

(D) Reporting solely to the respective State Government's finance department.

Oct/Nov 2014

92. The Prompt Corrective Action (PCA) framework specifies certain entities that are exempt from its scope. Which of the following is an exception to these exemptions, meaning it IS subject to the PCA framework if it meets the layer criteria?

(A) Government NBFCs

(B) NBFCs not accepting public funds

(C) Non-deposit taking NBFCs in the Middle and Upper layers

(D) Primary Dealers

May/June 2019

93. Under the scale-based regulatory framework, identify the incorrect statement regarding the prescribed credit concentration limits for lending and investments.

(A) The extant credit concentration limits for lending and investments have been merged into a single exposure limit.

(B) The limit is set at 25 per cent for a single borrower.

(C) The limit is set at 40 per cent for a group of borrowers in the case of NBFC-ML and NBFC-UL.

(D) These limits are determined with reference to the NBFC's total Tier 1 capital base.

Oct/Nov 2006

94. A high-net-worth individual approaches a Middle Layer NBFC to secure a loan entirely for the purpose of subscribing to an upcoming high-profile Initial Public Offer (IPO). The requested loan amount is Rs. 3.5 crore. How must the NBFC respond in accordance with the scale-based regulatory framework?

(A) Approve the loan in full, provided the borrower pledges equivalent collateral in gold.

(B) Approve the loan up to the ceiling of Rs. 1 crore per borrower to maintain stability.

(C) Reject the loan outright as NBFCs are prohibited from any capital market exposure.

(D) Route the loan application through an NBFC-Account Aggregator to bypass the IPO financing ceiling.

NODIA

May/June 2024

73. Identify the incorrect pair regarding the entities and their respective key monitoring parameters under the PCA framework for NBFCs.
(A) NBFCs-D – Capital (CRAR and Tier I capital ratio)
(B) NBFCs-ND – Asset quality (net NPA ratio)
(C) Core Investment Companies (CICs) – Leverage
(D) HFCs – Adjusted net worth / aggregate risk weighted assets

Oct/Nov 2008

74. For NBFCs-D and NBFCs-ND (excluding core investment companies), which critical financial metrics serve as the key monitoring parameters under the PCA framework?
(A) Total asset growth and geographic branch distribution
(B) Return on Equity (RoE) and Net Interest Margin (NIM)
(C) Capital (CRAR and Tier I capital ratio) and asset quality (net NPA ratio)
(D) Liquidity Coverage Ratio (LCR) and absolute deposit volume

May/June 2006

75. Match the specific regulatory action/framework in List-I with its corresponding operational feature in List-II.
List I: (Regulatory Action/Framework)
P. Special Liquidity Scheme (SLS)
Q. SARFAESI Act amendments
R. HFC Regulatory Framework
S. Dividend Declaration Guidelines
List II: (Operational Feature)
1. Introduced Liquidity Coverage Ratio (LCR) and raised NOF to Rs. 20 crore.
2. Linked payout eligibility criteria to capital adequacy and net NPA levels.
3. Lowered the secured debt limit threshold to Rs. 20 lakh.
4. Utilized an SPV to purchase investment grade CPs/NCDs of residual maturity up to 90 days.
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-1, R-3, S-2
(C) P-1, Q-2, R-4, S-3
(D) P-4, Q-3, R-1, S-2

Oct/Nov 2017

76. Consider the following statements regarding the application of the SARFAESI Act to NBFCs:
I. NBFCs with an asset size of Rs. 100 crore and above are permitted to take recourse to the SARFAESI Act.
II. The enforcement of security interest under the Act was initially allowed for secured debts of Rs. 1 crore and above.
III. In February 2021, the secured debt threshold for enforcement was increased to Rs. 1.5 crore.
Which of the statements given above is/are correct?
(A) II and III only
(B) I and III only
(C) I, II, and III
(D) I and II only

May/June 2008

77. Which of the following provides the most comprehensive description of the nature of NBFCs in the Indian economy, particularly concerning their ownership and sector focus?
(A) They are exclusively government-owned entities mandated to provide zero-interest loans to the agricultural sector.
(B) They are purely private, unregistered consortiums facilitating peer-to-peer foreign currency exchanges.
(C) They are subsidiaries of multinational banks created solely to manage distressed assets.
(D) They are entities engaged in credit purveying across diverse sectors, including the unbanked.

Oct/Nov 2013

78. The Reserve Bank issued guidelines in April 2021 for the appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) for SCBs, UCBs, and NBFCs. These guidelines seek to achieve which of the following objectives?
I. To put in place ownership-neutral regulations.
II. To ensure the independence of auditors and avoid conflicts of interest.
III. To improve the quality and standards of audit in the Regulated Entities (REs).
IV. To transfer the responsibility of fixing audit remuneration entirely from the Board to the shareholders.

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ANSWERS

1. (D) They are NBFCs with an asset size of Rs. 500 Crore or more.
These entities do not accept public deposits but are large enough to impact the financial system. The Reserve Bank of India identifies non-deposit taking companies with total assets of at least five hundred crore rupees as systemically important. This classification ensures that larger financial intermediaries undergo more rigorous regulatory scrutiny to maintain overall stability within the domestic economy.

2. (C) Acquisition of receivables or extending loans against receivables at a discount.
Factor companies specialize in providing liquidity by managing trade debts. Their primary business involves the acquisition of receivables or providing financial assistance against the security interest of these receivables. They help businesses manage cash flows by purchasing invoices at a discounted rate, ensuring that the assignor receives immediate funds for operations instead of waiting for payment terms.

3. (A) Only I is correct
While commercial banks operate across all sectors of the economy as primary purveyors of credit, non-banking financial institutions often focus on specialized niches. Banks have a broad mandate to offer a full range of financial services, whereas NBFCs frequently target specific activities or underserved segments. This functional distinction allows NBFCs to provide tailored financial solutions alongside the traditional banking system.

4. (C) Both I and II are correct
Financial data from 2009 to 2019 highlights significant expansion in the non-banking sector. Scheduled commercial banks recorded a steady compounded annual growth rate of over ten percent during this decade. Simultaneously, the aggregate size of NBFC balance sheets doubled relative to those of commercial banks, reflecting the increasing importance and systemic footprint of these financial intermediaries in India.

5. (B) Chit Funds – State Governments under the Chit Fund Act
Different types of financial entities are governed by specific regulatory frameworks based on their activities. While the Reserve Bank oversees many NBFCs, chit funds are specifically regulated by the respective State Governments under the provisions of the Chit Fund Act. This localized oversight ensures that the unique operational structures of chit funds are managed according to state-specific legal requirements.

6. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The stability of the banking sector is now closely linked to the health of non-banking entities. Since NBFCs depend heavily on banks for liquidity and funding, any distress within the shadow banking sector can quickly transmit shocks to the broader financial system. Consequently, regulators must monitor both sectors simultaneously to prevent systemic contagion and ensure long-term stability for the economy.

7. (B) They transfer surplus funds from households to sectors needing funds like corporates and government.
Financial intermediaries facilitate the efficient movement of capital by bridging the gap between savers and borrowers. Banks perform this role by accepting deposits from households that have excess funds and redirecting those resources toward productive investments in the corporate and government sectors. This process supports economic development by ensuring that capital is available where it is most needed.

8. (B) P-4, Q-3, R-2, S-1
Account aggregators consolidate financial information for users, while peer-to-peer platforms connect individual lenders and borrowers online. Housing finance companies focus on providing residential loans, and investment and credit companies engage in general lending and investment. These distinct categories allow for specialized financial services

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May/June 2021

95. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option:

Assertion (A): The extant NPA classification norm for all categories of NBFCs has been aligned to an overdue period of more than 90 days under the scale-based framework.

Reason (R): The Reserve Bank has provided a glide path to NBFCs in the Base Layer (NBFC-BL) to achieve this 90-day norm by March 31, 2026.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

96. Identify the incorrect statement regarding the Special Liquidity Scheme (SLS) announced in July 2020.

(A) The scheme was established with an announced corpus of Rs. 30,000 crore.
(B) The scheme permitted the acquisition of debt strictly through primary markets only.
(C) The instruments targeted were investment grade commercial papers and non-convertible debentures.
(D) The scheme dictated that proceeds must be utilized solely for extinguishing existing liabilities.

May/June 2005

97. An NBFC intends to declare a substantial dividend for its shareholders to boost market sentiment. However, a review of its financials reveals that its net NPA levels have severely breached the thresholds stipulated by the RBI in its June 24, 2021 guidelines. What is the most likely consequence of this scenario?

(A) Eligibility for dividend pay-out will be restricted due to capital adequacy and NPA levels.
(B) The NBFC can proceed with the dividend declaration provided it secures approval from SEBI.
(C) The NBFC is mandated to issue bonus shares instead of cash dividends.
(D) The NBFC will be automatically exempted from the dividend ceiling ratio.

Oct/Nov 2022

98. Pioneer Credit is a non-deposit taking NBFC operating primarily in a single state. Its total asset size grows rapidly, reaching Rs. 1,050 crore by the end of the financial year. Consequent to this growth, how will Pioneer Credit's classification shift under the scale-based regulatory framework, and what immediate regulatory implication arises?

(A) It shifts from the Base Layer to the Upper Layer, instantly triggering PCA restrictions.
(B) It moves to the Middle Layer, subjecting it to borrower exposure limits tied to Tier 1 capital.
(C) It remains in the Base Layer but must increase its CET-1 capital to 15%.
(D) It is forcibly moved to the Top Layer and must halt all new lending.

May/June 2018

99. The broad categories of Deposit Accepting and Non-Accepting NBFCs are divided into 11 specific categories. Which of the following is NOT one of those 11 explicit categories?

(A) Investment and Credit Company (ICC)
(B) NBFC-Account Aggregator (NBFC-AA)
(C) Mortgage Guarantee Company (MGC)
(D) Chit Fund and Nidhi Consolidator Company (CFNCC)

Oct/Nov 2016

100. The regulatory and supervisory framework prescribed by the Reserve Bank for NBFCs focuses heavily on depositor protection, consumer protection, and financial stability. What is the overarching objective of maintaining this robust framework, as articulated in the context of the financial super structure?

(A) To eliminate the banking sector entirely and replace it with shadow banking entities.
(B) To centralize all corporate equity holdings under the exclusive control of the RBI.
(C) To ensure that no new NBFC can ever be registered in the Indian market.
(D) To ensure their smooth functioning in encouraging investment and economic growth.

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17. (A) 18.6 per cent
Between 2009 and 2019, the non-banking financial sector experienced rapid growth, significantly outperforming the growth rate of traditional banks. Total assets in this sector expanded at a compounded annual rate of over eighteen percent. This expansion indicates the increasing reliance of the Indian economy on these specialized lenders for credit requirements across infrastructure, retail, and small business sectors.

18. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Non-deposit taking entities with asset sizes exceeding five hundred crore rupees are designated as systemically important because their failure could trigger widespread financial instability. The designation allows the regulator to apply more stringent standards to these large players. Given their size and role in the credit market, monitoring their health is essential for maintaining the overall integrity of the financial system.

19. (D) NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC)
This specific category was created to provide a structured mechanism for promoters to establish new banks. The non-operative financial holding company serves as an intermediary through which the promoter group holds its equity stake in the bank. This structure ensures a clear separation between the banking activities and other commercial interests of the promoter, enhancing corporate governance and regulatory oversight.

20. (A) P-3, Q-4, R-2, S-1
Microfinance institutions focus on providing small-ticket, collateral-free loans to underserved populations. Factors acquire receivables at a discount to provide liquidity to businesses. Non-operative financial holding companies facilitate the establishment of new banks by promoter groups. Mortgage guarantee companies specialize in providing credit risk protection for housing loans. Each entity plays a unique role in diversifying the financial services landscape.

21. (C) Chapter III B and C and Chapter V
The legislative authority for the Reserve Bank to oversee non-banking financial companies is derived from the Reserve Bank of India Act, 1934. Specifically, Chapters III B and III C empower the bank to regulate and supervise these entities effectively. Furthermore, Chapter V provides additional legal provisions necessary for the bank to execute its regulatory duties and maintain financial sector discipline.

22. (B) Maintenance of a physical branch network of at least ten branches.
To apply for a license, a company must be legally incorporated and meet specific Net Owned Fund requirements. The regulator also evaluates the credit history of the company and its directors to ensure clean records. However, there is no mandatory requirement regarding the number of physical branches, allowing NBFCs to operate through digital models or limited physical presence nationwide.

23. (D) Chit Fund Companies – Securities and Exchange Board of India
Regulatory oversight is distributed among different authorities based on the nature of the financial activity. While SEBI manages stock-broking, venture capital, and mutual funds, it does not regulate chit funds. Chit funds are primarily governed by individual State Governments under the specific provisions of the Chit Fund Act. Misidentifying the regulator for these entities ignores the established legal framework.

24. (D) I, II, and V only
Microfinance institutions provide small loans to the economically disadvantaged, and mortgage guarantee companies handle credit risk for home loans. Investment and credit companies are primarily engaged in lending and investing. However, housing finance companies focus on residential financing rather than infrastructure, and infrastructure finance companies specifically target the infrastructure sector. Understanding these definitions is crucial for identifying each entity's market role.

25. (B) Investment in equity shares, preference shares, debt, or loans of group companies.
Core investment companies are specialized entities that primarily hold stakes in their group

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companies. They do not engage in public lending or retail financial services. Instead, their assets are predominantly comprised of investments in the equity, debt, or loans of their own subsidiaries and affiliates. This structure allows industrial groups to manage their corporate holdings through a dedicated, regulated financial vehicle.

26. (D) The Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934.
The dual pillars of banking regulation in India are the RBI Act of 1934 and the Banking Regulation Act of 1949. These laws provide the central bank with comprehensive powers to license, supervise, and control all banking activities within the country. This legal foundation is essential for ensuring that financial institutions operate safely and protect the interests of depositors and the economy.

27. (A) Rs. 51.47 lakh crore
The non-banking financial sector, including housing finance companies, reached a substantial scale by the end of March 2020. Total assets reached over fifty-one lakh crore rupees, demonstrating the sector's critical role in the national economy. This size makes the health of NBFCs a vital component of financial stability, as they bridge significant credit gaps left by traditional commercial banks.

28. (A) P-3, Q-1, R-4, S-2
Insurance companies are overseen by IRDA, while housing finance companies fall under the supervision of the National Housing Bank. Merchant banking activities are regulated by SEBI to ensure market integrity. Nidhi companies, which function as mutual benefit societies, are governed by the Ministry of Corporate Affairs. This multi-regulator approach ensures that specialized financial sectors receive focused oversight from expert authorities.

29. (C) NBFC-Infrastructure Debt Fund (NBFC-IDF)
Infrastructure debt funds are designed to facilitate long-term debt flow into the infrastructure sector. They typically focus on projects that have already completed at least one year of successful operations after commencement. By providing long-term financing solutions for stabilized projects, these entities help free up capital for banks and other lenders to fund new greenfield infrastructure developments across the country.

30. (D) P-3, Q-2, R-4, S-1
Investment and credit companies handle general lending, while infrastructure finance companies focus on the infrastructure sector. Core investment companies manage group company investments, and infrastructure debt funds provide long-term debt for post-commencement infrastructure projects. These classifications allow the regulator to apply specific rules tailored to the risks and operational nature of each distinct type of non-banking financial activity.

31. (C) Self-Regulatory Organization (SRO)
To improve industry standards and ethical behavior, the regulator encourages the formation of self-regulatory organizations within the microfinance sector. These bodies help enforce codes of conduct and ensure that member institutions follow best practices in lending. By promoting self-governance, the regulator can maintain better oversight while allowing the industry to proactively address operational challenges and consumer protection issues.

32. (B) April 1, 2023
To strengthen corporate governance, the Reserve Bank mandated that large NBFCs in the upper and middle layers establish a formal compliance function. This included the appointment of a Chief Compliance Officer and the implementation of a board-approved policy. Regulated entities were given until the beginning of April 2023 to comply with these requirements, ensuring a structured transition toward better internal oversight.

33. (B) I, II, and III only
The Reserve Bank supports the growth of the NBFC sector through coordination with state governments, promotion of self-regulatory bodies, and training for various stakeholders. These efforts aim to curb unauthorized activities and improve professional standards. However, the bank does not directly manage the daily credit operations of individual NBFCs, as these are independent commercial decisions made by company management.

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34. (D) No, because proceeds received under the SLS must be used solely for extinguishing existing liabilities.
The Special Liquidity Scheme was introduced as a temporary measure to provide emergency liquidity during the pandemic. Under the guidelines, funds obtained through this facility must be used exclusively to repay existing debts and liabilities. Allocating these funds for new loan disbursements is prohibited, as the primary goal is to stabilize the entity's balance sheet rather than expand its portfolio.

35. (A) Proportionality, linking regulatory intensity to the scale and risk of the NBFC.
The scale-based regulatory framework is built on the principle of proportionality. It recognizes that larger and more complex entities pose greater systemic risks than smaller ones. By dividing NBFCs into four layers based on their size and activity, the regulator can apply more stringent rules to systemically important players while keeping regulations simpler for smaller, less risky institutions.

36. (A) I, II, III, IV, and V
The revised framework for housing finance companies introduced several critical updates to align them with other NBFCs. These included new definitions for housing finance, increased minimum capital requirements, and restrictions on group company exposures. Additionally, the introduction of liquidity coverage ratios and Ind-AS guidance ensures that HFCs maintain robust financial health and transparency while managing the specific risks of real estate.

37. (A) Cancelling Registration, issuing prohibition orders, and filing winding up petitions.
When non-banking companies violate regulations or act against public interest, the Reserve Bank has the authority to take severe enforcement actions. These powers include the ability to cancel an entity's registration, prohibit it from accepting deposits, or even initiate legal proceedings for winding up the company. These measures are essential for maintaining discipline and protecting the integrity of the financial system.

38. (D) 40 per cent of its Tier 1 capital.
Under the scale-based framework, large NBFCs are subject to strict credit concentration limits to prevent over-exposure to a single group of borrowers. For entities in the middle and upper layers, the maximum permissible exposure to a group of connected borrowers is capped at forty percent. This limit is calculated based on the institution's Tier 1 capital, ensuring a strong capital buffer.

39. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The mandate to appoint a Chief Compliance Officer in larger NBFCs is designed to embed a culture of compliance within the organization. By requiring a formal policy and a dedicated officer, the regulator ensures that governance keeps pace with the entity's risk profile and scale. This structured approach helps identify and mitigate compliance risks effectively, thereby strengthening the financial stability.

40. (D) It includes NBFC-NDs with assets below Rs. 1,000 crore and certain specific activity NBFCs.
The base layer of the regulatory pyramid consists of smaller non-deposit taking companies with assets under one thousand crore rupees. It also includes specific types of entities like peer-to-peer lending platforms and account aggregators. Because these institutions generally pose less systemic risk, they are subject to less intensive regulation compared to the larger entities found in the middle and upper layers.

41. (B) It must undertake capital augmentation to increase its NOF to at least Rs. 20 crore.
Following the regulatory transition of housing finance companies to the Reserve Bank, the minimum Net Owned Fund requirement was raised. Entities that were previously operating with lower capital bases must now plan for capital augmentation to meet the new twenty crore rupee threshold. This requirement ensures that all HFCs possess sufficient financial strength to support their lending activities and absorb potential losses.

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59. (C) NBFC-ML units were required to establish the compliance framework and appoint a CCO by April 1, 2023.
While upper-layer entities were required to establish the compliance framework and appoint a CCO by April 2023, the deadline for middle-layer NBFCs was set for a year later, on April 1, 2024. These guidelines ensure that both layers eventually adopt a structured approach to governance and compliance risk management, but the implementation schedule was staggered to allow more time.

60. (B) I, II, III, and V only
Key requirements under the new framework include a fifteen percent CRAR and a nine percent CET-1 ratio for upper-layer entities. Exposure limits are set at twenty-five percent for individuals and forty percent for groups, using Tier 1 capital as the reference metric. Additionally, a one crore rupee cap on IPO financing was established. Using owned fund instead of Tier 1 is incorrect.

61. (C) I and II only
Established in 1994, the Board for Financial Supervision serves as the primary oversight body for commercial banks, financial institutions, and NBFCs. It is responsible for discussing and implementing various supervisory initiatives. While it met regularly during the period mentioned, the exact number of meetings was higher than five, reflecting the board's active role in navigating the challenges of the financial system.

62. (A) Core Investment Companies (CICs) – Leverage
Under the Prompt Corrective Action framework, different types of entities are monitored using specific risk indicators. For core investment companies, leverage is a critical additional parameter because their primary activity involves investing in group companies. By tracking leverage alongside capital and asset quality, the regulator can better assess the financial stability of these specialized holding companies and take corrective measures.

63. (A) No, because it does not meet the minimum asset size threshold of Rs. 100 crore.
Access to the recovery mechanisms of the SARFAESI Act is limited to NBFCs that meet specific criteria. Currently, only those entities with a total asset size of at least one hundred crore rupees are eligible to use the Act. Since Capital Trust's assets are only eighty-five crore rupees, it cannot utilize SARFAESI for debt recovery, regardless of the individual loan amount.

64. (C) P-4, Q-2, R-1, S-3
Non-operative financial holding companies facilitate the setup of new banks, while factors provide liquidity by purchasing receivables at a discount. Microfinance institutions specialize in collateral-free loans for the economically disadvantaged, and infrastructure debt funds offer long-term financing for operational infrastructure projects. Correctly identifying these characteristics is essential for understanding the diverse roles that different NBFCs play within the broader landscape.

65. (A) Non-deposit taking NBFCs classified specifically in the middle, upper, and top layers.
The PCA framework is specifically designed to cover deposit-taking NBFCs and large non-deposit taking entities in the middle, upper, and top layers. Certain entities, such as government companies, primary dealers, and housing finance companies, are currently excluded from this specific framework. Therefore, the systemically important non-deposit taking entities are the primary focus of these corrective action rules.

66. (A) P-4, Q-1, R-3, S-2
Registering as an NBFC requires a minimum Net Owned Fund of two crore rupees. IPO financing is capped at one crore rupees per borrower, while individual borrower exposure for large NBFCs is limited to twenty-five percent of Tier 1 capital. Furthermore, upper-layer entities must maintain a Common Equity Tier 1 capital ratio of nine percent. These thresholds are critical for stability.

67. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The reduction in the secured debt limit from fifty lakh to twenty lakh rupees significantly expands the recovery options for NBFCs. This change allows these lenders to use the SARFAESI Act for smaller loans, which are common in the micro and small enterprise sectors. By facilitating faster

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51. (D) To ensure an arm's length relationship and address concerns related to double lending.
Restrictions on an institution's exposure to its own group companies in the real estate sector are designed to prevent conflicts of interest. By ensuring an arm's length relationship, the regulator minimizes the risk of "double lending," where funds are cycled through group entities. This help safeguard the financial health of the housing finance company and prevents the concentration of risk.

52. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The Reserve Bank collaborates with state authorities to address the challenges posed by unauthorized financial activities. This coordination is vital for the enactment of state-level legislation that empowers law enforcement to act against fraudulent entities. Since many unauthorized deposit-taking schemes operate locally, state-level legal frameworks are essential for protecting the public and maintaining the overall integrity of the sector.

53. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The top layer of the regulatory pyramid is designed to remain vacant under normal circumstances. The regulator intends to move an entity into this layer only if it determines that the institution's systemic risk profile has increased to an extreme level. This approach allows the Reserve Bank to apply highly specialized and stringent regulatory requirements to specific entities without burdening the entire layer.

54. (C) P-2, Q-4, R-1, S-3
The Special Liquidity Scheme was announced with a thirty thousand crore rupee corpus, though actual disbursements reached approximately seven thousand crore rupees. The scheme involved the purchase of commercial papers and non-convertible debentures with short-term residual maturities of up to ninety days. This targeted intervention provided much-needed liquidity to eligible NBFCs and HFCs during the heightened uncertainty of the pandemic.

55. (A) Aligning NPA classification to an overdue period of more than 90 days for all NBFC categories.
While the framework does aim to align NPA norms, it did not immediately mandate the ninety-day rule for every single category. Specifically, smaller entities in the base layer were provided with a glide path extending until 2026 to achieve this standard. Other changes, such as the ICAAP implementation and the IPO financing cap, were key components of the new regulatory regime.

56. (A) Coordinating with sector regulators to check unauthorized activities and streamline the sector.
A primary focus of the central bank is to streamline the non-banking sector through inter-regulatory coordination and the prevention of unauthorized financial practices. This involves working with other authorities to ensure that all players operate within the legal framework and that consumer interests are protected. The goal is to create a well-regulated environment that supports stable economic growth.

57. (B) Only II is correct
Analysis of the Special Liquidity Scheme's utilization shows that the vast majority of the disbursed funds, roughly eighty percent, were accessed by housing finance companies. The remaining portion was used by other types of NBFCs. The assertion that most funds were directed via non-convertible debentures is not the primary defining characteristic of the disbursement distribution compared to the sectoral allocation.

58. (A) Only I is correct
The middle layer of the scale-based framework includes all deposit-taking NBFCs, regardless of their size, as well as non-deposit taking entities with assets of one thousand crore rupees or more. This layer also includes specialized entities like infrastructure finance companies. The objective of this classification is to apply appropriate regulatory intensity based on systemic importance, not to increase arbitrage or foster growth.

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62.50 per cent.
II. The allotment to PDs for dated Government securities stood at 46.5 per cent.
III. The underwriting commission paid during the half year amounted to ₹309 crore.
IV. The underwriting commission worked out to 4.82p/₹100.
V. The overall quantum of turnover by SPDs in the repo segment decreased compared to the previous year.

Which of the statements are correct?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2023

7. What was a major objective of setting up the primary dealers' system in the Government securities market?
(A) To provide a framework for the oversight of foreign investments in central government securities
(B) To ensure the development of underwriting and market making in government securities
(C) To facilitate the transition from the previous open market operations conducted by the RBI
(D) To restrict the holding of government securities to institutional investors on an exclusive basis

Oct/Nov 2016

8. What is the most appropriate consequence if a Primary Dealer repays the liquidity support availed from the regulator on the 95th day?
(A) The PD will face immediate cancellation of its primary dealer authorisation and all trading privileges.
(B) The PD must pay a penal interest rate of Bank rate plus 5 percentage points for the overdue period.
(C) The PD must pay a penal interest rate of Repo rate plus 5 percentage points for the overdue period.
(D) The PD is prohibited from participating in any primary G-Sec auction conducted during the next quarter.

May/June 2009

9. At what interest rate is the liquidity support made available to standalone Primary Dealers by the regulator?
(A) Bank Rate
(B) Repo Rate
(C) Reverse Repo Rate
(D) Marginal Standing Facility (MSF) Rate

Oct/Nov 2018

10. Which of the following correctly identifies an exception regarding the operations of Primary Dealers?
(A) PDs must achieve a minimum secondary market turnover ratio.
(B) PDs are required to have an efficient internal control system.
(C) PDs are permitted to set up step-down subsidiaries to manage their portfolio.
(D) PDs must submit an annual target in consultation with the regulator in June every year.

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May/June 2014

11. Identify the correct pair regarding the financial performance of SPDs in 2020-21:
(A) Cost to income ratio : Significant increase resulting from a sharp decline in overall trading profits
(B) Total secured loans : Substantial decrease following a shift toward unsecured short-term funding sources
(C) Combined CRAR : Marginal drop below the minimum mandated threshold of 15 per cent for the period
(D) Profit after tax : Substantial increase driven primarily by a contraction in interest expenses

Oct/Nov 2011

12. A financial institution decides to apply for authorisation as a Primary Dealer. Upon review, the regulator discovers that the institution was subject to a major regulatory investigation related to its business activities six months ago. Based on the eligibility conditions, what will be the likely outcome of the application?
(A) Approval is granted immediately if the entity maintains higher capital adequacy than mandated by the current rules.
(B) The regulator grants 'in principle approval' but suspends the final authorization letter

and more efficient debt recovery, the government aims to improve the overall asset quality.

68. (B) Restricting branch expansion, capital expenditure, and staff expansion.
When an NBFC enters the PCA framework due to financial weakness, the regulator can impose various discretionary actions to prevent further deterioration. These include limits on physical expansion, restrictions on capital spending, and halts on hiring. Such measures force the management to focus on internal consolidation and capital preservation, ensuring that the entity's remaining resources are used to stabilize its position.

69. (C) Both I and II are correct
Despite the challenges of the pandemic, the NBFC sector showed resilience during the 2020-21 period. Timely regulatory support and capital infusions helped improve asset quality and bolster capital buffers across many institutions. Furthermore, profitability also saw an upward trend as entities adapted their business models and benefited from lower borrowing costs and improved collections as the overall economy recovered.

70. (C) The Board of Directors, Audit Committee, or Local Management Committee.
The revised guidelines for auditor appointments place significant responsibility on the internal governance structures of regulated entities. The Board and its Audit Committee are tasked with ensuring that auditors are independent and perform their duties to a high standard. This shift emphasizes the importance of strong internal oversight in maintaining the integrity of financial reporting and audit quality.

71. (A) I, III, and IV only
Valid provisions include the twenty lakh rupee SARFAESI threshold, the nine percent CET-1 requirement for upper-layer entities, and the linking of dividends to capital adequacy and NPA levels. However, base-layer entities are not exempt from the ninety-day NPA norm; they simply have a glide path. Additionally, government-owned NBFCs are currently excluded from the PCA framework, making those statements incorrect.

72. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The introduction of a ceiling on dividend payouts is a prudential measure designed to ensure that NBFCs retain adequate capital. By limiting the amount of profit that can be distributed to shareholders, the regulator forces entities to strengthen their internal reserves. This retention of capital is crucial for absorbing potential losses and maintaining financial resilience as these entities grow in significance.

73. (D) HFCs – Adjusted net worth / aggregate risk weighted assets
While capital and asset quality are key monitoring parameters for most NBFCs, and leverage is specifically tracked for core investment companies, housing finance companies are currently excluded from this specific PCA framework. Therefore, listing a specific monitoring parameter for HFCs within the context of the October 2022 PCA guidelines is incorrect, as they fall under different oversight mechanisms.

74. (C) Capital (CRAR and Tier I capital ratio) and asset quality (net NPA ratio)
The Prompt Corrective Action framework identifies financial distress primarily through capital adequacy and asset quality. For both deposit-taking and systemically important non-deposit taking entities, the regulator monitors the CRAR, Tier I capital ratio, and the net NPA ratio. Breaching the predefined thresholds for these metrics triggers mandatory or discretionary interventions to protect the institution and the broader system.

75. (D) P-4, Q-3, R-1, S-2
The Special Liquidity Scheme used an SPV to purchase short-term debt, while SARFAESI amendments lowered the recovery threshold to twenty lakh rupees. The HFC framework introduced liquidity ratios and increased capital requirements. Finally, dividend guidelines linked shareholder payouts to an entity's capital health and NPA levels. Each of these regulatory actions addresses a specific aspect of the sector's stability.

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42. (C) Permitting unregulated shadow banking to expand to maximize the reach of financial inclusion.
The central bank focuses on strengthening the oversight of the non-banking sector through better transparency, enhanced disclosures, and closing regulatory gaps. It also conducts public awareness campaigns to prevent unauthorized deposit-taking. The idea of permitting unregulated shadow banking to expand is contrary to the regulator's mandate of ensuring financial stability and protecting consumers from fraudulent or high-risk activities.

43. (B) Rs. 1 crore
To prevent excessive volatility and manage risks associated with capital market exposure, the regulator introduced a ceiling on loans provided for subscribing to initial public offerings. Individual borrowers are restricted to a maximum of one crore rupees for such financing. This limit helps curb speculative activity and ensures that NBFCs do not become overly exposed to the fluctuations of equity markets.

44. (D) October 1, 2022
The Reserve Bank announced the new scale-based regulatory framework in late 2021 but provided a transition period for institutions to prepare. The guidelines officially came into effect on October 1, 2022. This framework fundamentally changed the way NBFCs are regulated by moving from a generic classification to a more nuanced, layer-based approach that reflects each entity's systemic importance.

45. (II, IV, I, III)
The regulatory journey included the earlier permission for large NBFCs to use the SARFAESI Act for debt recovery, followed by the transfer of HFC oversight from the National Housing Bank to the RBI in 2019. This was followed by the issuance of the revised HFC framework in 2020. Finally, the government further lowered the secured debt limit to twenty lakh rupees in 2021 to aid recovery efforts.

46. (B) The banking system, including Scheduled Commercial Banks
Due to the high level of interconnectedness, NBFCs rely heavily on the banking sector for both regular funding and emergency liquidity. When a non-banking entity faces a sudden cash shortage, it typically turns to commercial banks for support. This dependence creates a channel for financial contagion, as problems in the NBFC sector can potentially destabilize the banks that provide them with capital.

47. (B) It permitted primary and secondary market purchases of investment grade CPs and NCDs.
The Special Liquidity Scheme allowed a dedicated special purpose vehicle to purchase investment-grade debt instruments from the market. These purchases included both new issuances in the primary market and existing papers in the secondary market. By providing a buyer for these instruments, the scheme helped ensure that NBFCs and HFCs could maintain liquidity and honor their short-term obligations.

48. (A) III, IV, I, II
The scale-based framework applies progressively stricter rules as entities move up the layers. The base layer has the lowest intensity, followed by the middle layer. The upper layer includes systemically important entities with higher compliance requirements. The top layer, which is currently empty, is reserved for entities that pose extreme risk and would be subject to the most stringent regulatory oversight.

49. (A) I, II, III, and IV
A robust compliance policy must be comprehensive, covering risk identification, assessment, and mitigation strategies. It should clearly define the scope of the compliance function and the specific responsibilities of the board and senior management. Furthermore, the policy must outline the criteria for appointing a Chief Compliance Officer, ensuring that the individual meets the necessary professional and ethical standards for the role.

50. (C) 9 per cent
Entities classified in the upper layer of the scale-based framework are required to maintain a high quality of capital. Specifically, they must hold Common Equity Tier 1 capital amounting to at least nine percent of their total risk-weighted assets. This requirement ensures that systemically important NBFCs have a strong core capital buffer to absorb losses and remain resilient during periods of stress.

NODIA

85. (C) Imposing restrictions on dividend distribution.
When an entity breaches the risk thresholds defined in the PCA framework, the regulator is required to take certain mandatory actions. Restricting the distribution of dividends is a primary mandatory response, as it ensures that profits are retained within the company to rebuild its capital base. This helps stabilize the institution and prevents the further outflow of critical financial resources.

86. (B) The capital adequacy and the net NPA levels of the NBFC.
To ensure financial prudence, the 2021 guidelines on dividend distribution established clear quantitative criteria for eligibility. An NBFC can only declare dividends if it maintains a minimum level of capital adequacy and keeps its net non-performing assets below a specified threshold. This link ensures that only financially healthy institutions distribute profits, while those with weak balance sheets prioritize retention.

87. (B) P-4, Q-1, R-2, S-3
The base layer comprises smaller non-deposit taking entities, while the middle layer includes deposit-takers and larger non-deposit takers. The upper layer is reserved for entities specifically identified as systemically important through a scoring process. The top layer is meant to remain empty unless an institution poses an extraordinary risk. This tiered structure allows for effective regulatory oversight.

88. (B) Reject the proposal to ensure auditor independence and avoid potential conflicts of interest.
The RBI guidelines on auditor appointments emphasize the need for complete independence and the avoidance of any conflicts of interest. Appointing an auditor that is an affiliate of a major shareholder would violate these principles, as it could compromise the objectivity of the audit. Therefore, the Audit Committee must reject such proposals to ensure that the financial statements are audited neutrally.

89. (B) They recalibrated business strategies by leveraging digital technology and data analytics.
As the economy began to recover from the initial pandemic shock, many NBFCs successfully adapted by embracing digital transformation. By leveraging data analytics and online platforms, these entities improved their collection processes, streamlined loan disbursements, and better assessed borrower risk. This shift toward technology-driven operations helped the sector regain its footing and enhanced its ability to serve customers efficiently.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Core investment companies are unique because their primary purpose is to hold investments in group entities. This concentration of risk makes leverage a vital monitoring parameter under the PCA framework. By tracking leverage alongside capital and asset quality, the regulator can ensure that these holding companies do not become over-leveraged, which could jeopardize the stability of the entire corporate group.

91. (B) Ensuring lines facilitate oversight by Top Management, the Board, and relevant Committees.
For a compliance function to be effective, the Chief Compliance Officer must have a reporting structure that ensures independence from commercial business units. Ideally, the CCO should report to the board or its committees, facilitating direct oversight by top management. This arrangement prevents the compliance function from being compromised by revenue-generating departments and ensures that regulatory risks are addressed.

92. (C) Non-deposit taking NBFCs in the Middle and Upper layers
While government NBFCs, primary dealers, and entities not accepting public funds are currently exempt from the PCA framework, large non-deposit taking companies in the middle and upper layers are not. These systemically important entities are subject to PCA rules to ensure that any deterioration in their financial health is addressed promptly through mandatory and discretionary actions.

93. (D) These limits are determined with reference to the NBFC's total Tier 1 capital base.
Under the scale-based framework, credit concentration limits for lending and investment

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have been unified. For middle and upper-layer entities, the limit is twenty-five percent for a single borrower and forty percent for a group. However, these limits are specifically determined with reference to the institution's Tier 1 capital. The statement suggesting they are tied to a different metric is inaccurate.

94. (B) Approve the loan up to the ceiling of Rs. 1 crore per borrower to maintain stability.
The scale-based regulatory framework imposes a strict limit on the amount of credit an NBFC can provide to an individual for the purpose of subscribing to an initial public offering. Regardless of the borrower's wealth or collateral, the ceiling is set at one crore rupees. NBFCs must adhere to this cap to prevent excessive market speculation and balance sheet risk.

95. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
While the regulator is moving toward a uniform ninety-day NPA classification for all NBFCs, the provision of a glide path for base-layer entities is a separate implementation detail. The reason for the ninety-day norm itself is to bring parity with the banking sector and improve transparency. The glide path simply ensures that smaller entities have enough time to adjust.

96. (B) The scheme permitted the acquisition of debt strictly through primary markets only.
The Special Liquidity Scheme was designed to be flexible by allowing the special purpose vehicle to purchase investment-grade commercial papers and non-convertible debentures from both primary and secondary markets. This approach ensured that the scheme could provide liquidity effectively by purchasing new debt issues as well as existing instruments, helping to stabilize the market and support financial health.

97. (A) Eligibility for dividend pay-out will be restricted due to capital adequacy and net NPA levels.
Under the 2021 guidelines, an NBFC's ability to pay dividends is strictly contingent upon its financial health. If an entity has breached the maximum net NPA threshold or failed to meet capital adequacy requirements, it is barred from distributing profits to its shareholders. This ensures that the company prioritizes the stabilization of its balance sheet and the preservation of capital reserves.

98. (B) It moves to the Middle Layer, subjecting it to borrower exposure limits tied to Tier 1 capital.
Once a non-deposit taking NBFC's asset size crosses the one thousand crore rupee threshold, it is automatically moved from the base layer to the middle layer. This shift brings the entity under more intensive regulation, including stricter credit concentration limits and requirement for enhanced governance. These rules ensure that as an NBFC grows, its regulatory oversight increases proportionally.

99. (D) Chit Fund and Nidhi Consolidator Company (CFNCC)
The Reserve Bank classifies NBFCs into several distinct categories such as Investment and Credit Companies, Account Aggregators, and Mortgage Guarantee Companies. While chit funds and Nidhi companies exist within the broader financial landscape, they are regulated by other authorities and are not part of the eleven specific categories of NBFCs formally defined and supervised by the central bank.

100. (D) To ensure their smooth functioning in encouraging investment and economic growth.
The ultimate goal of the regulatory and supervisory framework for NBFCs is to facilitate a healthy and stable financial ecosystem. By protecting depositors and consumers and ensuring financial stability, the Reserve Bank aims to create an environment where these entities can effectively funnel credit into the economy. This supports investment, drives economic growth, and ensures a robust financial system.

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CHAPTER 18

Primary Dealers in the Government Securities Market: Evolution, Regulation & Supervision

May/June 2016

1. The introduction of Primary Dealers in the Government securities market is primarily credited with bringing about an element of dynamism in which of the following areas?
(A) Exclusively in the primary equity markets and initial public offering segments
(B) Exclusively in the retail banking sector and personal credit lending institutions
(C) In the foreign exchange derivative markets and global currency hedging platforms
(D) In both the primary and secondary Government securities markets simultaneously

Oct/Nov 2022

2. The market performance computation for dividing the performance-based liquidity support among SPDs assigns different weights. What is the underlying conceptual ratio for T-Bill/CMB auctions versus G-Sec auctions?
(A) 1:1
(B) 3:1
(C) 1:3
(D) 1:5

May/June 2025

3. Which of the following statements accurately reflects the structural composition of Primary Dealers as of March 31, 2021?
(A) There were 21 Primary Dealers, comprising 7 bank departments and 14 standalone PDs.
(B) There were 25 Primary Dealers, comprising 15 bank departments and 10 standalone PDs.
(C) There were 21 Primary Dealers, comprising 14 bank departments and 7 standalone PDs.
(D) There were 20 Primary Dealers, distributed equally between bank departments and standalone PDs.

Oct/Nov 2009

4. Consider the following statements regarding the turnover ratios of Primary Dealers:
I. The minimum annual total turnover ratio for dated Government securities is set at 5 times the average month-end stock.
II. The minimum annual total turnover ratio for T-Bills is set at 6 times the average month-end stock.
Which of the statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2018

5. Match the entities and frequency in List I with their corresponding descriptions or values in List II:
List I: (Category)
P. Standalone Primary Dealers
Q. Bank Primary Dealers
R. Target Review Frequency
S. Target Submission Month
List II: (Value/Description)
1. June
2. Annually
3. 150 per cent
4. 100 per cent
Which of the following is the correct matching?
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

NODIA

Oct/Nov 2019

6. Consider the following statements detailing the financial metrics of standalone PDs in H1: 2021-22:
I. The success ratio in T-Bills and CMBs was

76. (D) I and II only
The SARFAESI Act originally applied to NBFCs with assets of one hundred crore rupees or more for debts over one crore rupees. Later, the debt threshold was lowered to fifty lakh rupees and eventually to twenty lakh rupees in 2021. However, the statement that the threshold was increased to one point five crore is incorrect. The trend remains accessibility.

77. (D) They are entities engaged in credit purveying across diverse sectors, including the unbanked.
NBFCs are diverse financial institutions that play a vital role in providing credit to various segments of the Indian economy. They are particularly effective at reaching underserved and unbanked populations that may not have easy access to traditional commercial banks. By offering specialized financial products across retail and infrastructure, NBFCs contribute significantly to financial inclusion and overall economic development.

78. (D) I, II, and III only
The 2021 guidelines for statutory auditors aim to create a uniform, ownership-neutral regulatory environment while ensuring auditor independence. They are designed to prevent conflicts of interest and enhance the overall quality of financial audits across the sector. However, the guidelines do not transfer the power to fix audit remuneration entirely to shareholders; this responsibility remains with the board.

79. (B) I and II only
During the initial phase of the pandemic, NBFCs faced a severe contraction in business as collections and disbursements plummeted. This situation was exacerbated by a spike in borrowing costs as market liquidity tightened. While the loan moratorium provided relief to borrowers, it actually reduced immediate cash inflows for the NBFCs themselves, creating liquidity challenges that required regulatory intervention.

80. (D) Restrict dividend distributions and require promoters to infuse additional capital.
When a core investment company breaches risk thresholds under the PCA framework, the regulator typically mandates capital-preservation measures. This includes restricting the payment of dividends to shareholders and requiring the entity's promoters to inject new capital to bolster the balance sheet. These actions are designed to improve the institution's capital ratios and ensure it has enough strength to manage exposures.

81. (C) I, III, and IV only
The non-banking sector has grown to a size comparable with private banks and has significantly expanded its balance sheet relative to commercial banks over the last decade. It also benefits from innovative, tech-driven business models. However, its funding is not exclusively from capital markets; scheduled commercial banks remain the largest single source of funds, accounting for most borrowings.

82. (A) A calibrated supervisory approach designed to bring required modularity and scalability.
The Reserve Bank employs a sophisticated and calibrated supervisory model to manage the diverse range of financial entities under its purview. This approach allows for modularity and scalability, ensuring that supervisory tools are applied based on the specific risk profile and systemic importance of each institution. By focusing on high-risk areas, the regulator can deploy its resources more effectively.

83. (D) I, II, and IV only
The PCA framework effective from October 2022 applies to deposit-taking and large non-deposit taking NBFCs, excluding government companies and primary dealers. It does not apply to the base layer of NBFCs or to housing finance companies, which are managed under different rules. This targeted application ensures that the most systemically important and potentially risky entities are subject to strict protocols.

84. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The early stages of the pandemic created significant stress in the financial markets, causing a sharp rise in borrowing costs for non-banking entities. This was a direct result of the economic uncertainty and lockdowns, which made investors more cautious and restricted the flow of capital. The resulting liquidity crunch forced regulators to step in with specialized schemes.

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for a period of two years.
(C) The applicant is ineligible as it was subject to a major regulatory investigation within the last twelve months.
(D) The applicant is eligible provided it establishes a step-down subsidiary to isolate the investigated legal entity.

May/June 2007

13. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): Standalone PDs receive liquidity support from the regulator exclusively based on their secondary market performance.
Reason (R): Half of the total liquidity support is divided equally among all standalone PDs, and the remaining half is based on market performance in both primary and secondary markets.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2007

14. A standalone Primary Dealer (SPD) has a minimum Net Owned Fund (NOF) of ₹500 crore. What is the absolute minimum annual turnover target it must submit for July 2016-June 2017 to be achieved on behalf of mid-segment and retail investors?
(A) ₹250 crore
(B) ₹500 crore
(C) ₹750 crore
(D) ₹1000 crore

May/June 2010

15. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): During H1: 2021-22, the underwriting commission paid to PDs decreased significantly compared to the previous year.
Reason (R): There were nine instances of devolvement aggregating to ₹75,802 crore during H1: 2021-22.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2025

16. In which year did the Reserve Bank of India introduce the system of Primary Dealers in the Government Securities Market?
(A) 1995
(B) 1991
(C) 1999
(D) 2005

May/June 2012

17. A PD achieved a success ratio of 35% in the primary auctions of T-bills and Cash Management Bills (CMBs) assessed over a half-yearly basis. Based on the operational mandates, how has the PD performed?
(A) The PD has failed to achieve the mandated minimum success ratio of 40%.
(B) The PD has exceeded the mandated minimum success ratio of 30%.
(C) The PD has met the mandated minimum success ratio of 35%.
(D) The PD has failed to achieve the mandated minimum success ratio of 50%.

Oct/Nov 2024

18. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The decision to authorise Primary Dealers is solely determined by the capital structure of the applicant entity.
Reason (R): The regulator authorises PDs based on its perception of market needs, suitability of the applicant, and the likely value addition to the system.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

May/June 2012

19. A standalone Primary Dealer seeks to maximize its share of the performance-based liquidity support. To achieve this, it increases its outright turnover in G-Secs in the secondary market. If its T-Bills outright turnover is ₹100 crore and G-Sec outright turnover is ₹100 crore, what is the weighted value of its secondary market performance?
(A) ₹200 crore
(B) ₹300 crore
(C) ₹600 crore
(D) ₹400 crore

Oct/Nov 2014

20. Identify the correct pair regarding liquidity support allocation to standalone PDs:
(A) Fixed equal division portion : 50% of the total liquidity support
(B) Secondary market outright turnover in T-Bills/CMBs : Proportionate weight of 3
(C) Performance in primary market G-Sec auctions : Proportionate weight of 1
(D) Revision of PD-wise limit : Once every three years

May/June 2017

21. Conceptually, which segment formed the major source of funding for standalone Primary Dealers (SPDs) in 2020-21?
(A) Equity instruments
(B) Unsecured loans
(C) Borrowings
(D) Capital reserves

Oct/Nov 2005

22. Consider the following statements regarding the registration of standalone Primary Dealers:
I. Standalone Primary Dealers are registered as Non-Banking Financial Companies (NBFCs).
II. They are registered under section 45 IA of the RBI Act, 1934.
Which of the statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2019

23. Identify the incorrect statement regarding the annual turnover targets submitted by Primary Dealers:
(A) Existing PDs submit the annual target for turnover to be achieved on behalf of mid-segment and retail investors.
(B) The target should be submitted in the month of June every year.
(C) The target is reviewed annually by the regulator in consultation with the PD.
(D) The annual target for standalone PDs should not be less than 100 per cent of their minimum Net Owned Funds (NOF).

Oct/Nov 2020

24. A standalone PD evaluates its limit of liquidity support allocated by the regulator. Under the guidelines, when will the next scheduled revision of its PD-wise limit occur if the current limit was set in April?
(A) June
(B) September
(C) January
(D) October

May/June 2006

25. By definition, what constitutes the maximum duration for the repayment of liquidity support availed by a Primary Dealer without attracting penal interest?
(A) 30 days
(B) 90 days
(C) 60 days
(D) 120 days

Oct/Nov 2015

26. Which of the following is NOT an objective of the Primary Dealer system?
(A) To strengthen the overall physical and digital infrastructure in the domestic G-Sec market
(B) To make Primary Dealers an effective conduit for diverse open market operations (OMO)
(C) To improve the efficiency of the existing secondary market trading and settlement system
(D) To act as the exclusive regulatory authority for supervising and licensing satellite dealers

May/June 2021

27. Identify the incorrect statement regarding the secondary market operations of Primary Dealers:

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(A) The minimum outright turnover ratio for T-Bills is 3 times.
(B) The minimum total turnover ratio for T-Bills is set at 10 times the average month-end stock.
(C) The minimum outright turnover ratio exclusively for dated Government securities is 3 times.
(D) Turnover ratio is the ratio of total purchase and sales during the year in the secondary market to average month-end stocks.

Oct/Nov 2013

28. Consider the following statements regarding the application process for an entity to become a Primary Dealer:
I. The application must be submitted to the Chief General Manager, Internal Debt Management Department, RBI, Mumbai.
II. The regulator will directly issue the final authorisation letter before any undertaking is submitted.
III. Continuation as a PD depends on its compliance with the terms and conditions of authorisation.
Which of the statements is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2010

29. Match the performance area in List I with its corresponding proportionate weight assigned for liquidity support allocation in List II:
List I: (Performance Area)
P. Primary market T-Bill/CMB bids accepted
Q. Primary market G-Sec bids accepted
R. Secondary market outright turnover in T-Bills/CMBs
S. Secondary market outright turnover in G-Sec
List II: (Weight)
1. Weight of 3
2. Weight of 1
3. Weight of 1
4. Weight of 3
Which of the following is the correct matching?
(A) P-1, Q-2, R-4, S-3
(B) P-2, Q-1, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2010

30. Consider the following statements regarding the Role and Responsibilities of PDs:
I. PDs are required to achieve a minimum secondary market turnover ratio.
II. PDs are expected to maintain predominance of investment in G-Secs.
III. The standing arrangement with the regulator is based on an undertaking valid for a lifetime.
IV. A fresh Board resolution by the PD is required every three years for the undertaking.
Which of the statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2005

31. Identify the incorrect statement regarding the financial performance of standalone Primary Dealers (SPDs) in 2020-21:
(A) Reserves and surplus : Increased
(B) Secured loans : Increased marginally
(C) Fixed assets : Decreased substantially
(D) HTM investments : Decreased substantially

Oct/Nov 2022

32. Consider the following statements regarding the devolvement of dated securities on PDs:
I. PDs are allowed to set-off their accepted bids in the auction against their shortfall in underwriting commitment.
II. Devolvement takes place on a pro-rata basis.
III. Devolvement depends upon the amount of underwriting obligation of each PD before setting off the successful bids.
Which of the statements is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2013

33. According to the regulatory framework, the combined Capital to Risk (Weighted) Assets Ratio (CRAR) for all SPDs is mandated to be comfortably above what threshold?
(A) 9 per cent
(B) 15 per cent
(C) 10 per cent

NODIA

May/June 2020

73. Conceptually, what is the primary requirement for a PD engaging in the sale of securities allotted in primary issues on the same day?
(A) They must execute all trades strictly without utilizing any brokers.
(B) They must defer settlement to T+3 to ensure proper allotment.
(C) They must only sell to other primary dealers and not to retail clients.
(D) They must adhere to the extant guidelines issued by the regulator.

Oct/Nov 2015

74. Consider the following statements about the accounting of profit and loss on the sale of securities from the HTM category:
I. The profit on sale of securities from HTM shall first be taken to the P & L Account and thereafter appropriated to the "Reserve Account".
II. The loss on sale from HTM shall be recognized in the P & L Account and ignored for tax purposes.
Which of the statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2013

75. A standalone PD evaluates its total financial investments which currently stand at ₹10,000 crore. To comply with the predominance requirement, what must be the minimum holding in G-Secs, and what constitutes this G-Sec holding?
(A) ₹3,000 crore; it includes only the PD's Own Stock.
(B) ₹7,500 crore; it exclusively covers dated central government securities.
(C) ₹10,000 crore; all investments must be in G-Sec.
(D) ₹5,000 crore; including own stock, stock with RBI/market for repo, and G-Sec pledged with CCIL.

Oct/Nov 2021

76. Which electronic platform are PDs mandated to use to offer two-way prices in G-Sec for secondary market activities?
(A) NEFT
(B) RTGS
(C) e-Kuber exclusively
(D) NDS-OM

May/June 2024

77. A Foreign Portfolio Investor (FPI) executes an outright secondary market purchase of Government Securities with a PD, and the trade is reported on the NDS-OM on Tuesday. Assuming no holidays, on which day will the settlement of this transaction occur?
(A) Tuesday (T+0)
(B) Wednesday (T+1)
(C) Friday (T+3)
(D) Thursday (T+2)

Oct/Nov 2008

78. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): All problem exposures not backed by security or backed by doubtful security should be fully provided for by the PD.
Reason (R): The profit and loss account is exempt from reflecting the effect of portfolio valuation to maintain stable financial ratios.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

79. By definition, what triggers an instance of 'SGL bouncing' for a Primary Dealer?
(A) Failing to reach the minimum secondary market turnover ratio by the conclusion of the year.
(B) Being unable to provide sufficient funds in the current account by 3:00 pm on settlement day.
(C) Submitting an underwriting bid that falls significantly lower than the allocated MUC amount.
(D) Failing to repay the liquidity support successfully availed from the regulator within 90 days.

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profits.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

41. What is the most appropriate settlement cycle for outright secondary market transactions in Government Securities undertaken with Foreign Portfolio Investors (FPIs) and reported on NDS-OM?
(A) T+0 basis
(B) T+2 basis
(C) T+1 basis
(D) T+3 basis

Oct/Nov 2012

42. If a Primary Dealer holds an average month-end stock of T-Bills worth ₹100 crore, what is the minimum total turnover (including outright and repo transactions) it must achieve for these T-Bills?
(A) ₹300 crore
(B) ₹500 crore
(C) ₹1000 crore
(D) ₹600 crore

May/June 2011

43. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): In the ACU auction, successful bidders are paid underwriting commission on the MUC segment using exactly the same methodology regardless of their success rate in the ACU.
Reason (R): PDs succeeding for 4 per cent and above get the weighted average of all accepted bids, while others get the weighted average of the three lowest accepted bids.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

44. Match the financial indicators of SPDs in List I with their values for H1: 2021-22 in List II:
List I: (Indicator)
P. Net profit (₹ crore)
Q. Average assets (₹ crore)
R. Return on average assets (Per cent)
S. Cost to income ratio (Per cent)
List II: (Value)
1. 80,256
2. 1.0
3. 766
4. 14.0
Which of the following is the correct matching?
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

May/June 2022

45. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): PDs can submit client bids in the primary auctions under the competitive route without maintaining any risk management systems.
Reason (R): PDs are allowed to submit bids of their SGL/Gilt account holders as their own bids.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

46. What defines the calculation metric for the "success ratio" of a Primary Dealer in primary auctions?
(A) Total bids submitted as a proportion to total market volume
(B) Bids accepted as a proportion to bidding commitment
(C) Bids accepted as a proportion to the total notified amount
(D) Outright turnover as a proportion to total

NODIA

asset value

May/June 2016

47. Which of the following statements is correct regarding the payment of underwriting commission to PDs?
(A) It is paid only if there is no devolvement on the PD during the specific auction cycle under review.
(B) It is paid on the amount accepted for underwriting regardless of the actual quantum of devolvement.
(C) It is paid based on the specific amount of devolvement incurred by the PD in the competitive auction.
(D) It is credited to the PD's account only upon the final conclusion of the relevant financial year.

Oct/Nov 2009

48. Consider the following statements about the SPDs' profit and loss dynamics in 2020-21:
I. Trading profits witnessed a substantial increase.
II. Income remained at almost similar levels compared to the previous year.
III. Expenditure decreased in comparison with the previous year.
IV. Return on net worth decreased.
Which of the above statements are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2023

49. Two issues of GOI securities are floated on the same day. A PD has a total underwriting obligation. How is the minimum bid amount rule applied by the PD?
(A) The minimum bid amount will be applied to each issue separately.
(B) The PD must submit a single combined bid for the aggregate amount.
(C) The PD can choose to bid the entire minimum amount in only one of the issues.
(D) The PD is exempt from minimum bid requirements on multiple issue days.

Oct/Nov 2018

50. Conceptually, what is the purpose of computing the Minimum Underwriting Commitment (MUC) for each PD in Central Government dated securities?
(A) To ensure that exactly 100 percent of the notified amount is underwritten on an equal basis by all participants.
(B) To distribute the underwriting burden proportionally based on the total balance sheet size of each individual PD.
(C) To ensure that 50 percent of the notified amount is underwritten equally by all registered Primary Dealers.
(D) To determine the maximum bidding limit for ACU bids based on the capital structure of the applicant entity.

May/June 2007

51. Identify the incorrect statement regarding the settlement rules for Primary Dealers:
(A) Primary auction settlement : Funded separately from secondary market settlements.
(B) Funds provision deadline on auction settlement days : Before 3:00 pm.
(C) Instance of shortage of funds in current account : Treated as 'SGL bouncing'.
(D) Settlement cycle for outright secondary market transactions : T+2 basis for all participants.

Oct/Nov 2025

52. Consider the following statements regarding the performance of PDs in 2020-21:
I. Partial devolvement on PDs took place on fifteen instances.
II. The underwriting commission paid was ₹455 crore.
III. The underwriting commission increase was strongly co-related to the contracted quantum of borrowing.
Which of the statements is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2012

53. Which statement correctly identifies an action required from PDs regarding major complaints?
(A) PDs must resolve all complaints internally and are not required to provide any notification to the regulator.
(B) PDs are required to report complaints only

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to the Income Tax Department and other relevant fiscal authorities.
(C) PDs must report any major complaint or regulatory action initiated by bodies like SEBI, CBI, or ED.
(D) PDs are exempt from reporting Enforcement Directorate actions if the investigation is still in preliminary stages.

Oct/Nov 2014

54. Which of the following is an exception to the factors considered by the regulator while finalizing the bidding commitments for a PD in T-Bills/CMBs auctions?
(A) The Net Owned Funds (NOF) of the PD.
(B) The offer made by the PD.
(C) The PD's branch network size across rural areas.
(D) The PD's past adherence to the prescribed success ratio.

May/June 2019

55. In the context of underwriting commission payment, what rate of commission is paid on the MUC for PDs who succeed in the ACU for 4 per cent and above of the notified amount?
(A) The weighted average of all the accepted bids in the ACU.
(B) The weighted average rate of the three lowest accepted bids in the ACU.
(C) The uniform cut-off rate decided by the regulator.
(D) A flat rate of 4.82p/₹100.

Oct/Nov 2006

56. A Primary Dealer holds an average month-end stock of dated Government securities worth ₹200 crore over the year. What is the minimum outright turnover it must achieve exclusively through outright transactions to comply with the regulatory requirement?
(A) ₹600 crore
(B) ₹1000 crore
(C) ₹1200 crore
(D) ₹2000 crore

May/June 2021

57. Consider the following statements regarding the underwriting of State Development Loans (SDLs):
I. The regulator may invite PDs to collectively bid to underwrite up to 100 per cent of the notified amount.
II. The auction could only be uniform price-based, and multiple price-based is strictly prohibited.
III. If two issues are floated on the same day, the 30% individual limit is applied to the combined notified amount.
IV. The regulator reserves the right to reject all bids tendered by PDs for underwriting without assigning any reason.
Which of the above statements are correct?
(A) I and III only
(B) I and IV only
(C) II, III, and IV only
(D) I, II, and IV only

Oct/Nov 2010

58. Which of the following is an exception to the mandated requirements for a Primary Dealer under the prevailing regulatory and supervisory provisions?
(A) Obtaining the regulator's prior approval before joining the Primary Dealers Association of India (PDAI).
(B) Submitting prescribed periodic returns to the regulator.
(C) Meeting registration requirements stipulated by SEBI for Stock Exchange operations.
(D) Joining the Fixed Income Money Market and Derivatives Association (FIMMDA).

May/June 2005

59. Match the rule concerning primary market activities in List I with its corresponding attribute in List II:
List I: (Rule)
P. MUC share distribution
Q. ACU max bid limit
R. ACU success >= 4% commission on MUC
S. GOI multiple issues on same day
List II: (Attribute)
1. Weighted avg of all accepted bids
2. 30 per cent of notified amount
3. Applied to each issue separately
4. Uniform irrespective of capital
Which of the following is the correct matching?
(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-2, R-4, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-3, S-1

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(D) 12 per cent

Oct/Nov 2021

34. An auction of State Development Loans (SDLs) is announced. The total notified amount is ₹1,000 crore. What is the maximum amount a single Primary Dealer can bid to underwrite in this specific issue?
(A) ₹500 crore
(B) ₹1,000 crore
(C) ₹100 crore
(D) ₹300 crore

May/June 2024

35. A PD executes transactions in the Stock Exchange. SEBI initiates a regulatory action against the PD for an operational discrepancy. Under the salient features of regulation, what is the immediate obligation of the PD towards the Reserve Bank of India?
(A) Bring the action initiated by SEBI to the attention of the regulator.
(B) Challenge the action in court before informing the regulator.
(C) Liquidate its G-Sec portfolio within 24 hours.
(D) Temporarily suspend all Primary Market Activities until SEBI drops the action.

Oct/Nov 2008

36. Consider the following statements regarding secondary market sale transactions of dated securities:
I. PDs may execute the sale transaction and report the same on NDS-OM.
II. The sale transaction may be made within one hour of intimation of firm allotment in the primary auctions.
Which of the statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2006

37. Match the parameter of SPDs' Secondary Market Performance in List I with the trend observed in 2020-21 in List II:
List I: (Parameter)
P. Quantum of outright turnover
Q. Quantum of repo segment turnover
R. Share of SPDs in total market turnover
S. Quantum of unsecured loans
List II: (Observed Trend)
1. Decreased in comparison with previous year
2. Increased over the previous year
3. Decreased marginally during the year
4. Decreased (as a Source of Funds)
Which of the following is the correct matching?
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2017

38. What is the best description of the maximum bidding limit imposed on a Primary Dealer in the Additional Competitive Underwriting (ACU) auction?
(A) A PD cannot bid for more than 50 per cent of the total notified amount.
(B) A PD must bid for exactly its proportional share of the ACU amount.
(C) There is no upper limit; a PD can bid for up to 100 per cent of the ACU amount.
(D) A PD cannot bid for more than 30 per cent of the notified amount in the ACU auction.

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May/June 2008

39. Identify the incorrect statement regarding the primary auctions of T-Bills/CMBs:
(A) Each PD individually commits to a fixed percentage of the notified amount at the beginning of the year.
(B) The minimum bidding commitment is determined by the regulator in consultation with the PD.
(C) A PD is required to achieve a minimum success ratio of 40 percent in T-Bills/CMBs auctions.
(D) If an auction gets cancelled, the PD must still include that auction's notified amount in the calculation of its success ratio.

Oct/Nov 2013

40. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): In H1: 2021-22, the PAT of SPDs decreased despite a high underwriting commission.
Reason (R): The decrease in PAT during H1: 2021-22 was on account of reduced trading

crore, and a minimum prescribed NOF of ₹250 crore. Under the investment guidelines, what is the required daily minimum investment sum in G-Secs (including T-bills, CMBs, and permissible Corporate Bonds)?
(A) ₹2,250 crore
(B) ₹1,500 crore
(C) ₹2,000 crore
(D) ₹2,500 crore

May/June 2009

67. By definition, what constitutes 'SGL bouncing' in the context of primary auction settlements?
(A) Failing to submit the bidding commitment to the regulator at the beginning of the relevant financial year.
(B) Bidding for more than 30 per cent of the total notified amount in an individual ACU auction session.
(C) Insufficient funds in the current account by 3:00 pm on settlement day to meet subscription obligations.
(D) Failing to achieve the minimum mandated success ratio of 40 per cent on a half-yearly performance basis.

Oct/Nov 2011

68. In an auction of T-Bills, all bids submitted are rejected by the regulator due to market conditions. How should a PD treat this auction's notified amount when calculating its half-yearly success ratio?
(A) The PD must include the entire notified amount in the denominator of its success ratio calculation.
(B) The PD should not take that auction's notified amount in the calculation of its success ratio.
(C) The PD must include 50% of the notified amount as a penalty.
(D) The PD must request a waiver from the PDAI to exclude it.

May/June 2010

69. Which of the following is the most appropriate reason why primary auction settlements must be funded separately by a Primary Dealer?
(A) Because primary auction settlement is independent from the secondary market settlements.
(B) Because primary auctions use physical cash while secondary settlements are electronic.
(C) Because the regulator maintains separate regional offices for primary and secondary operations.
(D) Because foreign investors are only allowed in the secondary market.

Oct/Nov 2024

70. Which of the following statements is correct regarding the statutory auditors of a Primary Dealer?
(A) They are not required to certify the problem exposures in the profit and loss account.
(B) They determine the minimum bidding commitment for the PD annually.
(C) Their report should contain a certification reflecting the problem exposures and the effect of portfolio valuation.
(D) They approve the transfer of securities to and from the HTM portfolio on a monthly basis.

May/June 2017

71. Identify the incorrect statement regarding the classification and transfer of securities under the HTM portfolio:
(A) Only securities acquired under the secondary market outright transactions are eligible for HTM classification.
(B) Transfer of securities to/from HTM should be done at the least of acquisition cost, book value, or market value.
(C) Depreciation on such transfers shall be fully provided for.
(D) The quantum of HTM classified securities is restricted to 100% of audited NOF as of the preceding March.

Oct/Nov 2005

72. An SPD is calculating its daily investment requirement in G-Sec and Corporate Bonds. Its Net Call/Notice/Repo borrowing is ₹800 crore, Net regulator borrowing is ₹200 crore, and minimum prescribed NOF is ₹300 crore. What is the minimum required investment in G-Sec (and Corp Bonds up to 50% NOF) it must hold on a daily basis?
(A) ₹1,000 crore
(B) ₹1,300 crore
(C) ₹1,100 crore
(D) ₹1,200 crore

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Oct/Nov 2022

60. Consider the following statements regarding the Primary Market Activities of PDs:

I. The underwriting commitment on dated securities of Central Government is divided into Minimum Underwriting Commitment (MUC) and Additional Competitive Underwriting (ACU).

II. The share under MUC is proportional to the capital size of each PD.

Which of the statements is/are correct?

(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

May/June 2018

61. Consider the following statements regarding the holding format of investments by PDs:

I. PDs should necessarily hold their G-Sec portfolio in physical certificates to ensure security.

II. G-Sec portfolio can be held in SGL with the regulator or dematerialised account with depositories like NSDL/CDSL.

III. Purchase/sale transactions in G-Secs must be through SGL/CSGL/Demat accounts.

IV. Equity instruments can be held in physical form if privately placed.

V. Commercial Papers (CPs) and bonds must be held only in demat form.

Which of the above statements are correct?

(A) I, III, and IV only
(B) II, III, and V only
(C) II, IV, and V only
(D) I, II, III, and V only

Oct/Nov 2016

62. A PD receives intimation of firm allotment of dated securities in a primary auction at 11:00 AM. If the PD wishes to execute a secondary market sale transaction based on this allotment on the same day, by what time should the transaction ideally be made?

(A) By 12:00 PM
(B) By 11:30 AM
(C) By 1:00 PM
(D) By 3:00 PM

May/June 2014

63. Consider the following statements regarding the Investment Policy of PDs:

I. PDs should frame a Board approved investment policy.

II. The policy must clearly define the authority to put through deals.

III. The guidelines for valuation of the portfolio should be periodically evaluated.

Which of the above statements are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2007

64. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:

Assertion (A): Investments classified under HTM must always be carried at face value regardless of the acquisition cost.

Reason (R): If the investment is acquired at a premium, the premium is amortized over the remaining period to maturity.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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May/June 2025

65. Which of the following correctly identifies an exception regarding the valuation and accounting of transfers to/from the HTM portfolio?

(A) Transfer should be done at the highest of acquisition cost, book value, or market value.
(B) Transfer should be done exclusively at the original acquisition cost as recorded in the books.
(C) Transfer should be done exclusively at the prevailing book value as of the date of the request.
(D) Transfer should be done exclusively at the current market value prevailing on the date of transfer.

Oct/Nov 2019

66. A PD has a net call/notice/repo borrowing of ₹1,500 crore, net regulator borrowing of ₹500

Oct/Nov 2017

80. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The HTM quantum limit for an SPD is restricted to 150% of the minimum NOF requirement.
Reason (R): The quantum of securities classified as HTM is restricted to 100% of the audited NOF of the PD as at the end of March of the preceding financial year.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

81. Which of the following statements correctly identifies the required format for PDs holding certain financial instruments?
(A) CPs, bonds, debentures, and equity instruments can be held in physical form if they are privately placed.
(B) PDs must hold all their investments in physical form to prevent electronic fraud.
(C) PDs should hold all other investments such as CPs, bonds, debentures, and equity instruments only in demat form.
(D) G-Sec portfolio must be held in demat form, but CPs must be held in physical form.

Oct/Nov 2013

82. When an SPD includes Corporate Bonds in the mandated daily investment equation, what is the maximum extent of Corporate Bonds it can include?
(A) 50% of its minimum prescribed NOF
(B) 25% of its minimum prescribed NOF
(C) 100% of its minimum prescribed NOF
(D) Up to the total amount of its net repo borrowings

May/June 2015

83. Match the HTM portfolio operation in List I with its corresponding guideline in List II:
List I: (Operation)
P. Transfer to/from HTM portfolio
Q. Shift due to exigencies
R. Eligible securities for HTM
S. Quantum limit of HTM
List II: (Guideline)
1. Restricted to 100% of audited NOF of preceding March
2. Done with the approval of the Board
3. Only securities acquired under primary auction
4. Approved by MD of PD/Head of ALCO and ratified by Board
Which of the following is the correct matching?
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-1, Q-3, R-2, S-4
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2012

84. Consider the following statements regarding the regulatory requirements of Secondary Market activities:
I. PDs should offer two-way prices over the counter (OTC) market.
II. PDs are prohibited from taking principal positions in the secondary market.
III. PDs must adhere to guidelines on Separate Trading of Registered Interest and Principal of Securities (STRIPS).
IV. PDs must adhere to guidelines on Short Selling in Government Securities.
Which of the above statements are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

May/June 2011

85. Identify the incorrect statement regarding the submission of client bids by PDs in primary auctions:
(A) PDs are allowed to submit bids of their SGL/Gilt account holders under the competitive route.
(B) PDs should have a Board approved policy including an appropriate risk management system.
(C) A list of clients and details of business must be periodically reviewed by the regulator's inspectors only, not the Board.
(D) Records maintained regarding client bids should be subjected to concurrent audit.

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27. (A) The minimum outright turnover ratio for T-Bills is 3 times.
Secondary market turnover requirements vary by instrument to ensure active trading. For Treasury Bills, the minimum total turnover ratio is ten times, but the minimum outright turnover ratio is six times, not three. For dated Government Securities, the minimum outright turnover ratio is indeed set at three times the average month-end stock held by the authorized dealer.

28. (B) I and III only
Prospective firms must submit their applications to the Internal Debt Management Department of the central regulator. The process involves multiple stages, beginning with an in-principle approval rather than the immediate issuance of a final authorization letter. Continued operation as a dealer is contingent upon strict and ongoing compliance with the terms and conditions set during the authorization process.

29. (B) P-2, Q-1, R-3, S-4
To incentivize participation in the dated securities market, the liquidity support formula applies higher weights to those instruments. Bids accepted in primary auctions and outright turnover in the secondary market for dated Government Securities are both assigned a weight of three. In contrast, similar activities involving Treasury Bills and Cash Management Bills are assigned a lower weight of one.

30. (B) I, II, and IV only
Authorized dealers operate under established responsibilities that include achieving minimum turnover ratios and maintaining a predominance of government securities in their portfolios. While they operate under a standing arrangement with the regulator, this is not a lifetime commitment without review. Instead, a fresh Board resolution is required every three years to renew their formal undertaking with the regulator.

31. (C) Fixed assets : Decreased substantially
During the 2020-21 financial year, standalone firms saw several shifts in their balance sheets. While there were changes in reserves, secured loans, and investments in the Held to Maturity category, there was no substantial decrease in fixed assets. Most financial indicators for these firms are driven by their trading portfolios rather than significant changes in physical or fixed infrastructure.

32. (I) and (II) only
In the event of an undersubscribed auction, dated government securities are devolved upon authorized dealers on a pro-rata basis according to their underwriting commitments. Dealers are permitted to offset any bids they successfully placed in the competitive auction against their total underwriting obligation. This mechanism ensures that the government successfully raises the required funds while providing flexibility to dealers.

33. (B) 15 per cent
To ensure financial stability and the ability to absorb potential market shocks, standalone firms are required to maintain a high capital adequacy level. The regulatory framework mandates a minimum Capital to Risk (Weighted) Assets Ratio of fifteen percent. This threshold is higher than that required for commercial banks, reflecting the specialized and market-sensitive nature of these firm operations.

34. (D) ₹300 crore
When underwriting State Development Loans, individual dealers are subject to concentration limits to prevent over-exposure. A single dealer is generally permitted to bid for underwriting up to thirty percent of the total notified amount of the issue. For an auction with a notified amount of one thousand crore rupees, the maximum underwriting bid allowed would be three hundred crore.

35. (A) Bring the action initiated by SEBI to the attention of the regulator.
Authorized dealers are required to maintain high standards of transparency and professional conduct. If a firm becomes the subject of any regulatory action or major complaint initiated by authorities such as SEBI, the Central Bureau of Investigation, or the Enforcement Directorate, they must immediately inform the central bank. This ensures the primary regulator can assess any systemic risks.

36. (C) Both I and II
Authorized dealers are permitted to sell securities they have been allotted in a primary auction on

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immune to mark-to-market losses.
(C) It shall be recognized immediately in the P & L Account.
(D) It should be directly adjusted against the Net Owned Funds without affecting the P & L.

May/June 2007

93. Consider the following statements regarding the handling of problem exposures by PDs:
I. Problem exposures backed by doubtful security need not be provided for until a legal verdict is reached.
II. If a PD has filed a suit against another party for recovery, the exposure should be evaluated and provisions made.
III. Provisions for problem exposures must be made to the satisfaction of auditors.
Which of the above statements are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2025

94. Consider the following statements regarding regulatory supervision and risk management:
I. Banks authorized to undertake PD business departmentally must put in place adequate risk management systems.
II. The capital adequacy guidelines for bank PDs cover both assessment of requirements and coverage under risk management frameworks.
III. Periodic returns must be submitted to the regulator promptly.
IV. The regulator reserves the right to amend or modify the guidelines from time to time.
V. Primary Dealer activities are governed by the guidelines provided in relevant circulars issued by the regulator.
Which of the following combinations accurately captures the stated rules?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2012

95. Match the accounting concept for HTM securities in List I with its specific treatment in List II:
List I: (Concept)
P. Acquisition cost > Face value
Q. Transfer to HTM
R. Profit on sale of HTM security
S. Loss on sale of HTM security
List II: (Treatment)
1. Recognized in the P & L Account
2. Appropriated to the "Reserve Account"
3. Done at least of acquisition cost, book value, or market value
4. Premium is amortized over remaining period to maturity
Which of the following is the correct matching?
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2014

96. Consider the following conditions attached to HTM portfolio categorization by SPDs:
I. Transfer to/from HTM is permitted only once in a quarter as per Board formulated policy.
II. Shifts to/from HTM in exigencies require approval from the MD or Head of ALCO.
III. Such exigency shifts must be ratified by the Board.
IV. Profit on sale is first taken to P & L Account and then appropriated to "Reserve Account".
V. The book value of a security carried at a premium continues to be reduced to the extent of amortization.
Which of the following combinations correctly lists all true statements?
(A) I, II, III, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2019

97. Consider the following constraints on the investment policies of PDs:
I. Predominance must be at least 50% in G-Secs.
II. Corporate bonds can only constitute up to 50% of NOF for the daily investment equation.
III. Equity instruments must be held only in demat form.
IV. Transfer to/from HTM is permitted only once in a quarter.

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Oct/Nov 2020

86. A Standalone Primary Dealer (SPD) holds total financial investments (both long term and short term) worth ₹5,000 crore. To ensure predominance as per the investment guidelines, what is the minimum value of investments it must hold in G-Secs at any point of time?
(A) ₹1,500 crore
(B) ₹2,500 crore
(C) ₹2,000 crore
(D) ₹3,000 crore

May/June 2022

87. Which of the following is the best description of the mandatory requirement regarding the investment policy of PDs?
(A) It must be drafted by the statutory auditors and approved by the regulator directly.
(B) It must be a Board approved policy covering objectives, authority, procedures, and prudential exposure limits.
(C) It must exclusively outline the daily trading targets of individual dealers.
(D) It must strictly mimic the investment policy of the largest commercial bank in India.

Oct/Nov 2023

88. A Primary Dealer wishes to transfer certain government securities from its Held to Maturity (HTM) portfolio to another category. According to the guidelines, how frequently can such transfers be permitted?
(A) Once every month
(B) Once in a quarter
(C) Twice in a financial year
(D) Only at the end of the financial year

May/June 2016

89. Match the secondary market activity in List I with its corresponding operational guideline in List II:
List I: (Activity)
P. Market making in G-Sec
Q. Outright secondary market settlement
R. FPI outright settlement on NDS-OM
S. Primary auction settlement
List II: (Guideline)
1. Funded separately
2. Offer two-way prices through NDS-OM and OTC
3. T+1 basis
4. T+2 basis
Which of the following is the correct matching?
(A) P-2, Q-3, R-4, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-1, R-2, S-3
(D) P-1, Q-2, R-3, S-4

Oct/Nov 2009

90. Arrange the following steps regarding the accounting treatment of a security classified under HTM, assuming it was acquired at a premium, in the correct chronological order:
I. Classify the security acquired in the primary auction under HTM.
II. Carry the investment at acquisition cost.
III. Amortize the premium over the remaining period to maturity.
IV. Reduce the book value of the security to the extent of the amount amortized during the relevant accounting period.
(A) I, II, III, IV
(B) II, I, IV, III
(C) I, III, II, IV
(D) IV, III, I, II

May/June 2023

91. Consider the following statements regarding the Capital Adequacy and Risk Management of banks undertaking PD activities departmentally:
I. They continue to follow the extant guidelines applicable to banks.
II. Their investment portfolio classification and valuation are issued by the Department of Regulation (DoR) of the central regulator.
III. They are exempt from submitting any periodic returns to the regulator.
IV. The PD activity should be taken into account for assessing the bank's capital adequacy requirement.
Which of the above statements are correct?
(A) I, II, and IV only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2018

92. A standalone PD decides to sell a security from its HTM portfolio, resulting in a loss of ₹10 crore. According to the investment guidelines, how should this loss be treated?
(A) It should be amortized over the remaining period to maturity.
(B) It should be ignored as HTM securities are

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ANSWERS

1. (D) In both the primary and secondary Government securities markets simultaneously
The Primary Dealer system was established to enhance the efficiency and liquidity of the government securities market. By participating actively in both primary auctions and secondary trading, these entities facilitate price discovery and provide continuous buy-sell quotes. This dual presence fosters a more dynamic environment for debt management and market development across both segments simultaneously.

2. (C) 1:3
Performance-based liquidity support for standalone entities uses weighted metrics to reward market activity. While primary market bids for Treasury Bills and Cash Management Bills are valued at a weight of one, dated Government Securities carry a weight of three. This distinction reflects the higher complexity and longer-term commitment required for managing dated government debt instruments effectively.

3. (C) There were 21 Primary Dealers, comprising 14 bank departments and 7 standalone PDs.
As of the end of March 2021, the landscape of the specialized dealer system comprised twenty-one authorized entities. The structural breakdown consisted of fourteen departments within commercial banks and seven specialized standalone firms. This hybrid model ensures participation from established banking institutions while allowing specialized entities to focus exclusively on underwriting and market-making within the securities market.

4. (A) I only
Authorized dealers must maintain specific turnover ratios to ensure active market participation. For dated Government securities, the minimum annual total turnover ratio is established at five times the average month-end stock. Conversely, the requirement for Treasury Bills is significantly higher at ten times, rather than six, reflecting the more frequent trading and shorter maturity nature of these instruments.

5. (A) P-3, Q-4, R-2, S-1
Standalone entities are required to maintain a higher annual target of at least one hundred and fifty percent of their minimum Net Owned Funds. In contrast, bank-run departments have a threshold of one hundred percent. These targets are submitted annually every May and undergo a formal review process to align with regulatory expectations and market development goals.

6. (A) I, II, III, and IV only
During the first half of the 2021-22 financial year, standalone firms demonstrated significant engagement in the government debt market. The success ratio for Treasury Bills reached sixty-two point five percent, while dated securities allotment stood at forty-six point five percent. Total underwriting commissions reached three hundred and nine crore rupees, averaging four point eight two paise per hundred.

7. (B) To ensure the development of underwriting and market making in government securities
The core purpose of the dealer system is to institutionalize the underwriting and market-making functions within the government securities market. By creating a specialized group of intermediaries, the regulator ensures that auctions are fully subscribed and that a liquid secondary market exists. This strengthens the debt issuance process and supports efficient price discovery for all types of investors.

8. (B) The PD must pay a penal interest rate of Bank rate plus 5 percentage points for the overdue period.
Liquidity support provided to standalone firms is intended for short-term needs and must be repaid within ninety days. If an entity fails to meet this deadline, it is subject to a penal interest rate calculated as the Bank Rate plus five percentage points. This penalty applies specifically to the duration of the delay beyond the mandated ninety-day period.

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not an unconditional privilege. Dealers must have a Board-approved policy and robust risk management systems in place to handle these transactions, ensuring that client-related activities do not compromise the firm's financial integrity.

46. (B) Bids accepted as a proportion to bidding commitment
The success ratio is a key performance indicator used to evaluate a firm's commitment to the primary market. It is calculated by taking the total volume of bids accepted by the regulator and dividing it by the bidding commitment previously agreed upon by the dealer. This ensures that dealers are not just bidding, but bidding at competitive market-clearing rates.

47. (B) It is paid on the amount accepted for underwriting regardless of the actual quantum of devolvement.
Underwriting commission is a fee paid to recognized dealers for the risk they assume in ensuring the success of government bond auctions. This commission is paid on the total amount the dealer has committed to underwrite, regardless of whether any devolvement actually occurs. This payment recognizes the value of the guarantee provided by the dealer to the government issuance process.

48. (A) I, II, and III only
The financial results for standalone firms in 2020-21 were characterized by a substantial increase in trading profits and relatively stable income levels. Additionally, overall expenditure decreased compared to the previous year, which contributed to a robust financial performance. These factors combined to support a strong return on net worth, reflecting a favorable year for debt market intermediaries.

49. (A) The minimum bid amount will be applied to each issue separately.
When the government floats multiple securities on the same day, authorized dealers must treat each auction as an independent event. The minimum bidding commitment and the rules regarding minimum bid amounts are applied to each security issue separately. This ensures that dealers support the entire range of the government's borrowing program rather than concentrating their bids on a single instrument.

50. (C) To ensure that 50 percent of the notified amount is underwritten equally by all registered Primary Dealers.
The Minimum Underwriting Commitment is a core component of the debt issuance framework designed to ensure the basic success of every auction. By requiring all registered dealers to equally share the underwriting of fifty percent of the notified amount, the regulator ensures a minimum level of guaranteed subscription, spreading the fundamental risk across the entire network of authorized dealers.

51. (D) Settlement cycle for outright secondary market transactions : T+2 basis for all participants.
Settlement cycles for government securities are standardized to ensure market efficiency. For the vast majority of domestic outright secondary market transactions, the settlement cycle is T+1. The T+2 settlement cycle is an exception specifically reserved for transactions involving Foreign Portfolio Investors to facilitate international fund movements, rather than being the general rule for all participants.

52. (A) I and II only
During the 2020-21 financial year, market conditions led to fifteen instances where government securities were partially devolved on authorized dealers. Over this period, the total underwriting commission paid out reached four hundred and fifty-five crore rupees. These figures reflect the active role and the risks managed by dealers during a year marked by high government borrowing and evolving market dynamics.

53. (C) PDs must report any major complaint or regulatory action initiated by bodies like SEBI, CBI, or ED.
Maintaining the reputation of the specialized dealer system is a regulatory priority. Entities are required to promptly report any significant complaints or legal and regulatory actions initiated by major oversight bodies like the Securities and Exchange Board of India or the Enforcement Directorate. This allows the primary regulator to monitor the conduct and operational integrity of its authorized firms.

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below this threshold, indicating a failure to meet the mandated primary market obligations.

18. (D) Assertion (A) is false, but Reason (R) is true.
The authorization of a specialized dealer is a multi-faceted decision process conducted by the regulator. While capital adequacy is a prerequisite, it is not the sole factor. The regulator evaluates the applicant's suitability, the perceived needs of the market, and the potential value the entity adds to the system to ensure that new entrants enhance overall market efficiency.

19. (D) ₹400 crore
For calculating performance-based liquidity support, secondary market outright turnover is weighted differently across instrument types. Treasury Bills and Cash Management Bills are assigned a weight of one, while dated Government Securities are assigned a weight of three. Therefore, an equal turnover of one hundred crore in each segment results in a total weighted value of four hundred crore.

20. (A) Fixed equal division portion : 50% of the total liquidity support
The allocation of liquidity support to standalone firms is structured to balance basic operational needs with performance incentives. Fifty percent of the total liquidity limit is divided equally among all standalone dealers as a fixed portion. The remaining half is distributed based on their relative performance in primary auctions and secondary market trading across various government securities.

21. (C) Borrowings
Standalone firms primarily rely on borrowed funds to finance their portfolios of government securities. During the 2020-21 period, borrowings remained the most significant component of their source of funds. This structure allows dealers to leverage their capital and participate extensively in market-making activities, although it also necessitates careful management of interest rate risks and liquidity requirements.

22. (C) Both I and II
Standalone firms operate under a specific regulatory status in India. They are registered as Non-Banking Financial Companies with the central regulator. This registration is conducted under Section 45 IA of the Reserve Bank of India Act, 1934, which ensures they are subject to comprehensive oversight regarding their financial health, capital adequacy, and operational conduct within the financial system.

23. (D) The annual target for standalone PDs should not be less than 100 per cent of their minimum Net Owned Funds (NOF).
Standalone firms are required to submit ambitious annual turnover targets for mid-segment and retail investors. Contrary to the idea that these targets can be as low as one hundred percent, the regulatory floor is set at one hundred and fifty percent of their minimum Net Owned Funds. This high threshold emphasizes the responsibility of dealers to broaden investor participation.

24. (D) October
The liquidity support limits assigned to individual firms are not static but are subject to periodic review and adjustment. These revisions occur twice during the financial year, typically in April and October. If a dealer's limit was established or last updated in April, the next scheduled regulatory assessment and revision of the allocated limit would take place in October.

25. (B) 90 days
Liquidity support provided to authorized dealers is designed to assist with temporary funding mismatches and is strictly short-term in nature. The maximum duration for which this support can be availed without incurring penal interest is ninety days. Dealers are expected to manage their cash flows effectively to ensure repayment within this window and avoid additional financial penalties.

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26. (D) To act as the exclusive regulatory authority for supervising and licensing satellite dealers
The specialized dealer system is designed to facilitate government debt management and market development, not to act as a regulatory body itself. While these entities improve efficiency, strengthen infrastructure, and serve as conduits for open market operations, the authority to supervise and license market participants remains exclusively with the central regulator. Dealers are market participants, not the governing agency.

V. HTM limits are tied to 100% of the audited NOF of the preceding financial year.

Which of the following combinations is correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2006

98. Arrange the following steps regarding the management of problem exposures resulting from a disputed transaction in the correct chronological order:
I. The problem exposure occurs and is identified by the PD.
II. The exposure is evaluated, and provisions are made.
III. The statutory auditors review and express satisfaction with the provisions.
IV. The PD files a suit against the counterparty for recovery.
(A) I, IV, II, III
(B) I, II, IV, III
(C) IV, I, III, II
(D) I, III, II, IV

May/June 2021

99. The following question consists of two statements, an Assertion (A) and a Reason (R). Choose the correct option:
Assertion (A): The concurrent auditors of a Primary Dealer are required to specifically verify compliance with the regulator's investment guidelines.
Reason (R): It is the responsibility of the statutory auditors to dictate the minimum turnover ratio for the PD.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

100. Match the operational/supervisory guideline in List I with its corresponding requirement in List II:
List I: (Guideline)
P. Department of Regulation (DoR) guidelines
Q. Bank PD capital adequacy
R. Supervisory right of the regulator
S. Periodic returns to the regulator
List II: (Requirement)
1. Required to be submitted promptly by authorized banks
2. Must account for PD activity in the bank's overall framework
3. Applicable to banks for classification and valuation of investment portfolios
4. Inspect books, records, and accounts of a PD

Which of the following is the correct matching?
(A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-4, R-2, S-3

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the same day through the secondary market. These transactions must be reported on the NDS-OM platform. To facilitate efficient market operations, such sales can be executed within one hour of receiving the formal intimation of firm allotment from the relevant auctioning authority.

37. (A) P-1, Q-2, R-3, S-4
During 2020-21, the secondary market activities of standalone firms showed diverse trends. While the quantum of outright turnover decreased compared to the previous year, turnover in the repo segment saw an increase. Additionally, the share of these dealers in total market turnover experienced a marginal decline, and the reliance on unsecured loans as a funding source also decreased.

38. (D) A PD cannot bid for more than 30 per cent of the notified amount in the ACU auction.
In the Additional Competitive Underwriting auction for dated government securities, individual participation is capped to ensure a broad distribution of underwriting responsibilities. A dealer is restricted from bidding for more than thirty percent of the total notified amount in this segment. This rule prevents any single entity from monopolizing the process and promotes competitive bidding among all dealers.

39. (D) If an auction gets cancelled, the PD must still include that auction's notified amount in the calculation of its success ratio.
The success ratio for Treasury Bill auctions is calculated based on bidding commitments and accepted bids. However, if an entire auction is cancelled by the regulator due to market conditions or other reasons, that specific auction's notified amount is excluded from the calculation. This ensures that the dealer's performance metrics are not unfairly penalized by events beyond their control.

40. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
In the first half of 2021-22, standalone firms reported a decline in Profit After Tax despite receiving significant underwriting commissions. This situation was caused by a sharp reduction in trading profits, which is the primary income stream for these firms. The volatility in the bond market during this period pressured margins more than the underwriting commissions could compensate for.

41. (B) T+2 basis
While standard domestic outright transactions in government securities typically settle on a T+1 basis, a different rule applies to transactions involving Foreign Portfolio Investors. To accommodate the complexities of international fund movements and time zone differences, outright secondary market trades with FPIs reported on NDS-OM are settled on a T+2 basis, providing an additional day for coordination.

42. (C) ₹1000 crore
Regulatory mandates require authorized dealers to maintain high liquidity in the Treasury Bill segment. The minimum annual total turnover ratio, which includes both outright and repo transactions, is set at ten times the average month-end stock held. Therefore, for a dealer maintaining an average stock of one hundred crore rupees throughout the year, a minimum total turnover of one thousand crore is required.

43. (D) Assertion (A) is false, but Reason (R) is true.
Underwriting commission rates in the Additional Competitive Underwriting auction are differentiated based on the dealer's success. Those who successfully bid for four percent or more of the notified amount are compensated at the weighted average rate of all accepted bids. In contrast, less successful bidders receive a rate based on the weighted average of the three lowest accepted bids.

44. (A) P-3, Q-1, R-2, S-4
In the first half of the 2021-22 financial year, standalone firms collectively managed average assets totaling eighty thousand two hundred and fifty-six crore rupees. They generated a net profit of seven hundred and sixty-six crore, resulting in a return on average assets of one percent. Their operational efficiency was reflected in a cost-to-income ratio of fourteen percent.

45. (D) Assertion (A) is false, but Reason (R) is true.
Authorized dealers are allowed to submit competitive bids on behalf of their Gilt account holders, treating them as their own bids in the primary auction. However, this is

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9. (B) Repo Rate
Standalone firms can access liquidity support from the central regulator to manage their funding requirements. This facility is generally provided at the prevailing Repo rate. Access to this window ensures that dealers have the necessary financial backing to fulfill their underwriting obligations and maintain liquidity in the government securities market during various market conditions and cycles.

10. (C) PDs are permitted to set up step-down subsidiaries to manage their portfolio.
Regulatory guidelines strictly govern the organizational structure of standalone firms to ensure focus on their primary mandates. A significant restriction in this framework is that these entities are not permitted to establish step-down subsidiaries for managing their portfolios or other activities. This prevents complex corporate structures and ensures that the dealer remains directly accountable to the regulator.

11. (D) Profit after tax : Substantial increase driven primarily by a contraction in interest expenses
During the 2020-21 period, standalone firms experienced a notable rise in their profit after tax. This financial improvement was primarily attributed to a significant reduction in interest expenses, which offset other operational costs. Such a trend highlights the impact of the prevailing interest rate environment and efficient funding management on the overall profitability of these specialized market intermediaries.

12. (C) The applicant is ineligible as it was subject to a major regulatory investigation within the last twelve months.
To maintain the integrity of the government securities market, the regulator enforces strict eligibility criteria for aspiring dealers. Any applicant that has been the subject of a major regulatory investigation or legal action within the twelve months preceding the application date is deemed ineligible. This cooling-off period ensures that only entities with clean compliance records are granted authorization.

13. (D) Assertion (A) is false, but Reason (R) is true.
Liquidity support for standalone firms is allocated using a dual-component formula rather than focusing solely on secondary market activity. Half of the available support is distributed equally among all authorized standalone entities. The remaining half is performance-linked, incorporating metrics from both primary auction participation and secondary market turnover to reward those who contribute most to market depth.

14. (C) ₹750 crore
Standalone firms must actively promote government securities among retail and mid-segment investors. The regulatory mandate requires them to achieve a minimum annual turnover in this segment equal to one hundred and fifty percent of their Net Owned Funds. For an entity with five hundred crore rupees in funds, the required minimum turnover target would be seven hundred fifty crore.

15. (D) Assertion (A) is false, but Reason (R) is true.
In the first half of 2021-22, the government securities market experienced significant volatility, leading to multiple instances where auctions were not fully subscribed. This resulted in substantial devolvement on authorized dealers, totaling over seventy-five thousand crore rupees. Consequently, the underwriting commissions paid out did not decrease as might be expected but remained a critical financial factor for the period.

16. (A) 1995
The central bank officially introduced the specialized dealer system in 1995 to strengthen the infrastructure of the government securities market. This initiative aimed to move away from a captive investor base and develop a more market-oriented mechanism for government borrowing. Since then, these entities have become essential intermediaries in the primary issuance and secondary trading processes.

17. (A) The PD has failed to achieve the mandated minimum success ratio of 40%.
Authorized dealers are subject to rigorous performance standards regarding their participation in government auctions. Specifically, for Treasury Bills and Cash Management Bills, dealers are required to achieve a minimum success ratio of forty percent on a half-yearly basis. A performance of thirty-five percent falls

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54. (C) The PD's branch network size across rural areas.
When determining the bidding commitments for Treasury Bills and Cash Management Bills, the regulator considers factors directly related to the dealer's financial capacity and past performance. These include Net Owned Funds, the dealer's own offers, and their historical success ratio. Operational factors like the size of a rural branch network are irrelevant to the specialized functions of these firms.

55. (A) The weighted average of all the accepted bids in the ACU.
The underwriting commission structure for dated government securities is designed to reward higher levels of successful participation. Dealers who achieve a success rate of four percent or more of the notified amount in the Additional Competitive Underwriting auction are paid at a rate equivalent to the weighted average of all accepted bids in that specific auction segment.

56. (A) ₹600 crore
For dated Government Securities, authorized dealers are mandated to achieve a minimum annual outright turnover ratio of three times their average month-end stock. If a dealer maintains an average stock of two hundred crore rupees throughout the year, they must execute outright buy and sell transactions totaling at least six hundred crore rupees to remain compliant with the mandate.

57. (B) I and IV only
The regulator has the authority to invite authorized dealers to collectively underwrite the entire notified amount of a State Development Loan. To maintain control over the cost of borrowing, the regulator also reserves the right to reject any or all underwriting bids without providing a specific reason. These rules ensure that issuances remain orderly and cost-effective for state governments.

58. (A) Obtaining the regulator's prior approval before joining the Primary Dealers Association of India (PDAI).
While authorized dealers must follow many regulatory steps, they do not need prior approval from the central bank to join the Primary Dealers Association of India. However, they are mandated to join the Fixed Income Money Market and Derivatives Association and must adhere to SEBI registration requirements for exchange activities and submit periodic returns as standard obligations.

59. (A) P-4, Q-2, R-1, S-3
Underwriting commitments in dated securities are structured through two segments. The Minimum Underwriting Commitment is distributed uniformly among all dealers regardless of their capital size. In the Additional Competitive Underwriting auction, a single dealer's bid is capped at thirty percent of the notified amount. If multiple issues are auctioned on the same day, all rules apply separately.

60. (A) I only
The underwriting of Central Government dated securities is split into the Minimum Underwriting Commitment and the Additional Competitive Underwriting segments. Contrary to common assumptions, the MUC share is not proportional to an entity's capital; it is divided equally among all authorized dealers to ensure a shared foundational responsibility for the success of government debt issuances through the network.

61. (B) II, III, and V only
Authorized dealers are required to use modern, electronic formats for holding and transacting securities. Government securities must be held in Subsidiary General Ledger accounts or dematerialized accounts rather than physical certificates. Furthermore, instruments like Commercial Papers and bonds must be held exclusively in demat form, and all transactions must be processed through recognized electronic clearing and settlement systems.

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62. (A) By 12:00 PM
To support liquidity on auction days, authorized dealers are allowed to trade securities allotted to them in the primary market immediately in the secondary market. According to the guidelines, these sale transactions should ideally be executed within one hour of receiving the formal intimation of firm allotment. If allotment occurs at 11:00 AM, the transaction should be made by 12:00 PM.

is strictly capped by regulation. This limit is set at one hundred percent of the entity's audited Net Owned Funds as of the end of March of the preceding financial year. This restriction ensures that dealers remain active in the trading market rather than locking away capital.

81. (C) PDs should hold all other investments such as CPs, bonds, debentures, and equity instruments only in demat form.
In line with the modernization of financial markets, the regulator mandates that authorized dealers hold almost all their non-government security investments in electronic format. This includes Commercial Papers, bonds, debentures, and equity instruments, which must be held exclusively in dematerialized form. This requirement reduces operational risks associated with physical certificates and facilitates faster clearing and settlement processes.

82. (A) 50% of its minimum prescribed NOF
While the primary focus of a dealer is government debt, they are allowed to include a limited amount of high-quality corporate bonds in their mandated daily investment calculations. This inclusion is capped at fifty percent of the dealer's minimum prescribed Net Owned Funds. This limit ensures that the dealer's portfolio remains predominantly focused on sovereign securities while allowing for some corporate credit exposure.

83. (A) P-2, Q-4, R-3, S-1
Transfers within the HTM portfolio are governed by strict internal approvals. Regular transfers require Board approval, while shifts necessitated by exigencies must be approved by the Managing Director and later ratified by the Board. Eligibility is restricted to primary auction acquisitions, and the total volume is capped at one hundred percent of the audited Net Owned Funds from the previous year.

84. (B) I, III, and IV only
Authorized dealers are required to provide two-way prices in the over-the-counter market and must strictly follow guidelines regarding the Short Selling of Government Securities and the stripping of securities. Unlike pure brokers, these dealers are encouraged to take principal positions in the secondary market to provide liquidity and support price discovery for various market participants and institutional investors.

85. (C) A list of clients and details of business must be periodically reviewed by the regulator's inspectors only, not the Board.
When authorized dealers submit bids on behalf of clients, they must operate under a transparent and well-governed framework. This includes having a Board-approved policy and ensuring that the list of clients and business details are periodically reviewed by both the firm's Board and regulatory inspectors. Relying solely on external inspectors for these reviews would be a failure of internal governance.

86. (B) ₹2,500 crore
The predominance requirement is a fundamental rule ensuring that standalone firms remain focused on their core mission of supporting the government securities market. At any given time, at least fifty percent of their total financial investments must consist of G-Secs. For a total investment portfolio of five thousand crore, the minimum G-Sec holding must be two thousand five hundred crore.

87. (B) It must be a Board approved policy covering objectives, authority, procedures, and prudential exposure limits.
Every specialized dealer is required to establish a comprehensive investment policy that has been formally approved by its Board of Directors. This document serves as the operational blueprint, clearly defining the entity's investment objectives, the authority granted to various personnel for executing deals, and the prudential limits on exposure to different types of market risks and various counterparties.

88. (B) Once in a quarter
To prevent frequent reclassifications that could be used to manipulate financial results, the regulator limits the frequency with which specialized dealers can transfer securities to or from the Held to Maturity portfolio. Such transfers are generally permitted only once during each quarter of the financial year, ensuring that the HTM category reflects a genuine and consistent long-term investment intent.

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HTM. Securities purchased through secondary market transactions cannot be placed in this category, ensuring that HTM remains a reward for supporting the government's direct issuance program via auctions.

72. (B) ₹1,300 crore
To comply with liquidity and market-making mandates, standalone firms must hold a minimum amount of government debt on their books. This daily requirement is the aggregate of their net market borrowings and their mandated Net Owned Funds. With eight hundred crore in market borrowing, two hundred crore from the regulator, and three hundred crore in NOF, the total required investment is thirteen hundred crore.

73. (D) They must adhere to the extant guidelines issued by the regulator.
Authorized dealers have the privilege of selling securities won in primary auctions on the same day to enhance market liquidity. However, this activity is strictly regulated. Dealers must adhere to all extant guidelines issued by the central regulator, which include reporting requirements on the NDS-OM platform and specific timelines for execution following the formal allotment of the securities.

74. (A) I only
When a security from the Held to Maturity category is sold, the accounting treatment differs for profits and losses. Any profit realized must first be recorded in the Profit and Loss Account and subsequently appropriated to a specific Reserve Account. This treatment prevents realized gains from being immediately distributed as dividends, thereby strengthening the dealer's capital base over the long term.

75. (D) ₹5,000 crore; including own stock, stock with RBI/market for repo, and G-Sec pledged with CCIL.
To maintain their status as specialized intermediaries, standalone firms must ensure that government securities form the predominant part of their investment portfolio. This means at least fifty percent of their total financial investments must be in G-Secs. This holding includes the dealer's own stock, securities used in repo transactions, and those pledged with recognized clearing houses.

76. (D) NDS-OM
The Negotiated Dealing System-Order Matching platform is the primary electronic venue for secondary market trading in government securities in India. Authorized dealers are mandated to use this platform to provide continuous two-way price quotes. This requirement ensures transparency, improves liquidity, and facilitates efficient price discovery for all market participants, from institutional investors to retail entities.

77. (D) Thursday (T+2)
For government security trades involving Foreign Portfolio Investors, a T+2 settlement cycle is utilized to account for cross-border logistics. If an outright purchase is reported on NDS-OM on a Tuesday, the settlement—where funds and securities are actually exchanged—will occur on the following Thursday, assuming there are no intervening holidays in the domestic or international markets.

78. (C) Assertion (A) is true, but Reason (R) is false.
Prudent financial management requires authorized dealers to fully provide for all problem exposures, especially those that are unsecured or backed by doubtful collateral. The Profit and Loss account cannot be exempt from reflecting these valuations; it must accurately show the impact of portfolio changes and risk exposures to ensure that the dealer's financial statements provide a fair view.

79. (B) Being unable to provide sufficient funds in the current account by 3:00 pm on settlement day.
A specialized dealer is said to have an SGL bouncing event if it lacks sufficient funds in its current account to settle its primary auction commitments. The critical deadline is 3:00 pm on the designated settlement day. Such an occurrence is viewed seriously by the regulator as it disrupts the government's borrowing program and indicates significant liquidity management failures.

80. (D) Assertion (A) is false, but Reason (R) is true.
The amount of securities that a standalone firm can classify under the Held to Maturity category

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(D) Damodaran Committee

Oct/Nov 2015

29. Which of the following statements incorrectly pairs a committee with its objective?
(A) The Vaghul Committee is associated with India's money market.
(B) The Tandon Committee is associated with processing for credit and working capital assessment.
(C) The Bhandari Committee is associated with the functioning of public sector banks.
(D) The Abid Hussain Committee is associated with smaller industries.

May/June 2024

30. The restructuring of weak Public Sector Banks was the core focus area of which committee?
(A) SN Verma Committee
(B) A.K. Khandelwal Committee
(C) James Raj Committee
(D) S.P. Talwar Committee

Oct/Nov 2018

31. Consider the explicit years or events mentioned in the mandates of the following committees and arrange them in historical order from earliest to latest.
I. Restructuring of Commercial Banks by SN Verma Committee
II. Revising and updating the Banking Ombudsman Scheme by Suma Verma Committee
III. Expert Committee on Resolution Framework Covid-19 related issue
Which of the following represents the correct historical order?
(A) I, II, III
(B) II, I, III
(C) III, I, II
(D) I, III, II

May/June 2006

32. Consider the following pairs and identify which of the following pairs is incorrectly matched.
(A) Vaghul Committee - India's money market
(B) K.V. Kamath Panel - HR related issues of public sector banks
(C) R.V. Gupta Committee - For Small Savings
(D) K.M. Chandrasekhar committee - rationalizing the foreign investment norms

Oct/Nov 2011

33. Which committee's mandate is most appropriate for addressing human resource challenges specifically within public sector banks?
(A) James Raj Committee
(B) A.K. Khandelwal Committee
(C) S.P. Talwar Committee
(D) Damodaran Committee

May/June 2019

34. Consider the following statements:
I. The A. Ghosh Committee investigated malpractices and frauds in India.
II. The A.C. Shah Committee focused on Non-Banking Financial Companies (NFBC) reforms.
Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2013

35. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. R.S. Gujral Committee
Q. S.P. Talwar Committee
R. A.C. Shah Committee
S. A. Ghosh Committee
List II: (Purposes)
1. Non-Banking Financial Companies (NFBC) reforms
2. Restructuring the weak Public Sector Banks
3. Malpractices and frauds in India
4. Suggesting the measures related to boost in MSME exports
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-1, Q-3, R-4, S-2

May/June 2017

36. Evaluate the following statements:
I. The R.S. Gujral Committee suggested measures related to a boost in MSME exports.
II. The S.P. Talwar Committee restructured weak Public Sector Banks.
III. The SN Verma Committee (1999) handled HR related issues of public sector banks.
Which of the above statements is/are correct?

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89. (A) P-2, Q-3, R-4, S-1
Market making requires providing two-way prices through both electronic and OTC channels. While standard domestic outright settlements occur on a T+1 basis, those involving Foreign Portfolio Investors are settled on a T+2 basis. Additionally, all primary auction settlements must be funded separately from these secondary activities to ensure the integrity of the government's direct borrowing and issuance process.

90. (A) I, II, III, IV
The accounting process for an HTM security purchased at a premium begins with its classification upon acquisition in a primary auction. The investment is initially carried at its acquisition cost. Over time, the premium is amortized across the remaining period to maturity, and the security's book value is progressively reduced by the amount amortized in each relevant accounting period.

91. (A) I, II, and IV only
Commercial banks that operate dealer activities departmentally must follow the specific capital adequacy guidelines applicable to the banking sector. They must also adhere to portfolio classification and valuation rules issued by the regulator. Crucially, the bank's capital adequacy assessment must incorporate all these activities to ensure a comprehensive view of the institution's risk profile and financial health.

92. (C) It shall be recognized immediately in the P & L Account.
While the Held to Maturity category protects against mark-to-market fluctuations during the holding period, any realized loss from the actual sale of such securities must be accounted for immediately. Such a loss cannot be deferred or amortized; it must be fully recognized in the Profit and Loss Account during the accounting period in which the sale transaction occurred.

93. (B) II and III only
Specialized dealers must proactively manage their risk by making provisions for problem exposures as soon as they are identified, even if legal action for recovery is still ongoing. These provisions must be calculated to the satisfaction of the firm's statutory auditors. Deferring such provisions until a final legal verdict is reached would be contrary to prudent accounting standards.

94. (D) I, II, III, IV, and V
The regulatory framework for specialized dealers is comprehensive, covering the need for adequate risk management systems and the submission of timely periodic returns. Authorized banks must integrate their dealer operations into their broader capital adequacy frameworks. Furthermore, the regulator maintains the authority to modify guidelines as needed to ensure the continued stability and efficiency of the government securities market.

95. (A) P-4, Q-3, R-2, S-1
Accounting for HTM securities involves specific rules for different scenarios. Premiums paid at acquisition are amortized over time. Transfers into the portfolio are valued at the lowest of cost, book, or market value. Upon sale, any realized profit is appropriated to a Reserve Account after being recorded in the P&L, while any realized loss is recognized directly in the P&L.

96. (D) I, II, III, IV, and V
Management of the HTM portfolio involves quarterly transfer windows and strict internal approval processes for any exigency-based shifts. Financial integrity is maintained by amortizing premiums and ensuring that profits from sales are moved to a Reserve Account. These rules, combined with a cap based on Net Owned Funds, ensure that the HTM category is used responsibly.

97. (D) I, II, III, IV, and V
Specialized dealers operate under several investment constraints designed to focus their activities on government debt. These include maintaining fifty percent predominance in G-Secs, limiting corporate bond inclusion in daily equations, and holding non-sovereign instruments in demat form. Additionally, the frequency of HTM transfers is restricted, and the total HTM volume is strictly linked to the previous year's audited capital.

98. (A) I, IV, II, III
When a disputed transaction occurs, the process begins with identifying the problem exposure. The dealer then typically files a legal suit for recovery against the counterparty. Simultaneously, the

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exposure must be evaluated and appropriate financial provisions made. Finally, the statutory auditors review these steps to ensure the dealer has sufficiently accounted for the risk in their formal financial statements.

99. (C) Assertion (A) is true, but Reason (R) is false.
Concurrent auditors play a vital role in ensuring that a specialized dealer complies with all regulatory investment guidelines on an ongoing basis. However, the responsibility for setting operational targets, such as the minimum turnover ratio, lies with the regulator in consultation with the dealer, rather than being a mandate dictated by the statutory auditors during their routine financial review.

100. (A) P-3, Q-2, R-4, S-1
The regulatory framework involves multiple layers of oversight. The Department of Regulation provides the rules for valuing investment portfolios, while banks must ensure their dealer operations are covered under their overall capital frameworks. The regulator maintains the legal right to inspect any dealer's records, and all authorized entities are required to submit their periodic financial returns promptly.

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CHAPTER 19

Important Committees Set Up by RBI

Oct/Nov 2022

1. Malpractices and frauds in India were the focal point of the committee headed by:
(A) A.C. Shah
(B) R. Jilani
(C) S.P. Talwar
(D) A. Ghosh

May/June 2014

2. Which of the following accurately describes the role of the R.V. Gupta Committee?
(A) It was set up for India's money market.
(B) It focused on malpractices and frauds in India.
(C) It was established for Small Savings.
(D) It was tasked with banking inspection systems.

Oct/Nov 2005

3. The primary objective of the Tandon Committee is defined as:
(A) Structural restructuring of weak Public Sector Banks
(B) Systematic dissemination of information related to credit
(C) Processing for credit and working capital assessment
(D) Management of the data and information systems in the RBI

May/June 2018

4. Which of the following is an incorrect statement regarding financial committees?
(A) The Aditya Puri Committee focused on the dissemination of information related to credit.
(B) The K.M. Chandrasekhar committee focused on rationalizing foreign investment norms.
(C) The R.S. Gujral Committee focused on the functioning of public sector banks.
(D) The Damodaran Committee focused on improving customer services in banks.

Oct/Nov 2016

5. The efficient dissemination of information related to credit is conceptually linked to the recommendations of the:
(A) Aditya Puri Committee
(B) Tandon Committee
(C) Abid Hussain Committee
(D) A.C. Shah Committee

May/June 2007

6. Which of the following committees was NOT established to address structural or operational aspects of banks directly?
(A) S.P. Talwar Committee
(B) R.S. Gujral Committee
(C) SN Verma Committee (1999)
(D) Bhandari Committee

Oct/Nov 2014

7. Which committee was constituted specifically for proposing new regulations related to virtual or digital currencies?
(A) James Raj Committee
(B) Dinesh Sharma Committee
(C) R. Jilani Committee
(D) Suma Verma Committee

May/June 2023

8. Consider the following statements regarding various committees and their respective purposes and identify the correct statement.
(A) The Bimal Jalan panel was set up for rationalizing foreign investment norms.
(B) The James Raj Committee focused on the functioning of public sector banks.
(C) The Cook Committee was responsible for restructuring commercial banks.
(D) The Vaghul Committee was established for small savings.

Oct/Nov 2010

9. Identify the incorrect statement from the options below regarding committee mandates.
(A) The A.C. Shah Committee dealt with NFBC reforms.

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63. (D) I, II, and III
A robust internal governance framework is essential for specialized dealers. This begins with a Board-approved investment policy that outlines the firm's objectives and prudential limits. The policy must clearly define the authorities empowered to execute deals and include guidelines for the periodic valuation of the portfolio to ensure that financial reporting accurately reflects current market conditions and risks.

64. (D) Assertion (A) is false, but Reason (R) is true.
Securities classified under the Held to Maturity category are not necessarily carried at face value. They are initially recorded at acquisition cost. If a security was purchased at a premium over its face value, that premium must be amortized over the remaining life of the instrument. This amortization process ensures that the book value gradually aligns with the face value by maturity.

65. (A) Transfer should be done at the highest of acquisition cost, book value, or market value.
Accounting for the transfer of securities to or from the Held to Maturity portfolio follows conservative principles to prevent the inflation of book values. The standard rule requires these transfers to be recorded at the least of the acquisition cost, book value, or market value. Any depreciation identified during this valuation process must be fully provided for at the time of transfer.

66. (A) ₹2,250 crore
Authorized dealers must maintain a minimum level of investment in Government Securities to ensure they fulfill their role as market makers. This daily requirement is calculated as the sum of their net borrowings from the call, notice, and repo markets, plus borrowings from the regulator, and their minimum mandated Net Owned Funds. For the given figures, the requirement equals two thousand two hundred fifty crore.

67. (C) Insufficient funds in the current account by 3:00 pm on settlement day to meet subscription obligations.
'SGL bouncing' in the context of primary auctions refers to a situation where an authorized dealer fails to meet its payment obligations for securities won in an auction. Specifically, if the dealer's current account has insufficient funds to cover the subscription amount by 3:00 pm on the settlement day, it is treated as a serious settlement default by the regulator.

68. (B) The PD should not take that auction's notified amount in the calculation of its success ratio.
The performance of a specialized dealer in the primary market is assessed through a success ratio. If an auction is cancelled by the regulator, the notified amount associated with that specific auction is removed from the calculation. This prevents the dealer's performance metrics from being skewed by auctions where no allotment was possible, regardless of the dealer's original bidding intent.

69. (A) Because primary auction settlement is independent from the secondary market settlements.
Authorized dealers must ensure that funds for primary auction subscriptions are available separately from their other trading activities. This is because the settlement process for primary auctions is conducted independently from the clearing and settlement of secondary market trades. Maintaining this separation ensures that government debt issuance is not delayed by unrelated trading or liquidity issues in the secondary market.

70. (C) Their report should contain a certification reflecting the problem exposures and the effect of portfolio valuation.
The role of statutory auditors for specialized dealers includes ensuring transparency in financial reporting. They are specifically required to certify any problem exposures in the firm's books and evaluate the impact of portfolio valuation on the profit and loss account. This oversight ensures that the dealer's financial health is accurately represented and that appropriate provisions have been made for risks.

71. (A) Only securities acquired under the secondary market outright transactions are eligible for HTM classification.
The Held to Maturity category is specifically designed for long-term investments. Regulatory guidelines stipulate that only those government securities acquired through primary auction participation are eligible for classification under

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Oct/Nov 2008

19. Identify the correct statement among the following options.
(A) The R. Jilani Committee implemented the General Anti Avoidance Rule.
(B) The Deepak Mohanty Committee assessed working capital requirements.
(C) The S.P. Talwar Committee focused on Non-Banking Financial Companies (NFBC) reforms.
(D) The Narasimham Committee was constituted for reforms related to the Banking Sector.

May/June 2015

20. Improving customer services in banks is directly associated with the concepts laid out by the:
(A) Damodaran Committee
(B) Suma Verma Committee
(C) R. Jilani Committee
(D) R.V. Gupta Committee

Oct/Nov 2025

21. All of the following are correctly matched with their respective mandates EXCEPT:
(A) K.M. Chandrasekhar committee - Rationalizing the foreign investment norms
(B) R.V. Gupta Committee - For Small Savings
(C) A.C. Shah Committee - Harmonizing the role of financial institutions
(D) Vaghul Committee - India's money market

May/June 2009

22. The A.K. Khandelwal Committee was set up to address which of the following areas?
(A) Non-Banking Financial Companies (NFBC) reforms
(B) HR related issues of public sector banks
(C) Harmonizing the role of financial institutions
(D) Broad reforms related to the Banking Sector

Oct/Nov 2006

23. To facilitate the financing of the infrastructure sector, which expert committee was constituted?
(A) R.V. Gupta Committee
(B) Bimal Jalan panel
(C) Narasimham Committee
(D) Deepak Parekh Committee

May/June 2021

24. Which of the following statements about the committees is incorrect?
(A) The Bimal Jalan panel scrutinized applications for new bank licenses.
(B) The AK Bhuchar Committee coordinated between commercial banks and term lending institutions.
(C) The SN Verma Committee (1999) restructured commercial banks.
(D) The Cook Committee evaluated the poverty scale of the country.

Oct/Nov 2017

25. Which of the following statements correctly identifies the purpose of the respective committee?
(A) The A.C. Shah Committee was formed to harmonize the role of financial institutions.
(B) The R.S. Gujral Committee suggested measures related to boosting MSME exports.
(C) The R.H. Khan Committee proposed new regulations related to digital currencies.
(D) The Abid Hussain Committee focused on the financing of the infrastructure sector.

May/June 2012

26. Which committee was established with the specific purpose of checking the capital adequacy of banks?
(A) A. Ghosh Committee
(B) Bimal Jalan panel
(C) R.H. Khan Committee
(D) Cook Committee

Oct/Nov 2020

27. All of the following committees are correctly matched with their purpose EXCEPT:
(A) James Raj Committee - Restructuring the weak Public Sector Banks
(B) A. Ghosh Committee - Malpractices and frauds in India
(C) C Rangarajan Committee - Eliminating the poverty scale of the country
(D) Deepak Mohanty Committee - Management of Data and information in the RBI

May/June 2010

28. Management of Data and information in the RBI was the mandate of the:
(A) Deepak Mohanty Committee
(B) Deepak Parekh Committee
(C) Dinesh Sharma Committee

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(B) The Dinesh Sharma Committee dealt with malpractices and frauds in India.
(C) The R.H. Khan Committee dealt with harmonizing the role of financial institutions.
(D) The R. Jilani Committee dealt with the Banking Inspection System.

May/June 2005

10. The C Rangarajan Committee was associated with:
(A) Financing the infrastructure sector
(B) Dissemination of Information related to credit
(C) Eliminating the poverty scale of the country
(D) Oversight of India's domestic money market

Oct/Nov 2019

11. Choose the option that does NOT represent a correct committee-purpose association.
(A) Bimal Jalan panel - Scrutinizing the applications for new bank licenses
(B) Dinesh Sharma Committee - Proposing the new regulation that is related to virtual or digital currencies
(C) Cook Committee - To check Capital adequacy of banks
(D) Parthasarathi Shome Committee - Financing the Infrastructure sector

May/June 2011

12. Rationalizing the foreign investment norms is the defined objective of which of the following committees?
(A) R.S. Gujral Committee
(B) Abid Hussain Committee
(C) K.M. Chandrasekhar Committee
(D) Aditya Puri Committee

Oct/Nov 2007

13. Identify the statement that correctly matches the committee with its mandate.
(A) The Suma Verma Committee was responsible for revising and updating the Banking Ombudsman Scheme, 2006.
(B) The AK Bhuchar Committee was tasked with revising the Banking Ombudsman Scheme.
(C) The Bhide Committee scrutinized applications for new bank licenses.
(D) The C Rangarajan Committee focused on HR related issues of public sector banks.

May/June 2016

14. Ensuring effective coordination between State Financial Corporations (SFCs) and commercial banks was the underlying concept of the:
(A) AK Bhuchar Committee
(B) R.H. Khan Committee
(C) Bhide Committee
(D) James Raj Committee

Oct/Nov 2012

15. The RBI set up several important committees. Which of the following is NOT correctly paired?
(A) Tandon Committee - Processing for credit / working capital assessment
(B) Narasimham Committee - For reforms related to Banking Sector
(C) Suma Verma Committee - Revising and updating the Banking Ombudsman Scheme, 2006
(D) Bhide Committee - Coordination between commercial banks and term lending institutions

May/June 2008

16. Which of the following committees is defined by its mandate to implement the General Anti Avoidance Rule (GAAR)?
(A) Parthasarathi Shome Committee
(B) A.K. Khandelwal Committee
(C) Vaghul Committee
(D) C Rangarajan Committee

Oct/Nov 2024

17. Identify the statement that incorrectly describes a committee's mandate.
(A) The Parthasarathi Shome Committee handled small savings.
(B) The Deepak Parekh Committee financed the infrastructure sector.
(C) The A.K. Khandelwal Committee handled HR related issues of public sector banks.
(D) The K.V. Kamath Panel acted as an Expert Committee on Resolution Framework Covid-19 related issue.

May/June 2020

18. Which committee was tasked with the reconstruction of the Regional Rural Banks (RRBs)?
(A) Bhandari Committee
(B) Bhide Committee
(C) James Raj Committee
(D) SN Verma Committee

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(A) I and III only
(B) I and II only
(C) II and III only
(D) I, II, and III

Oct/Nov 2021

37. A financial institution is looking for guidelines to enhance coordination between itself and term lending institutions. Which committee's focus area is most appropriate for this requirement?
(A) AK Bhuchar Committee
(B) Bhide Committee
(C) R.H. Khan Committee
(D) A.C. Shah Committee

May/June 2025

38. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. Deepak Parekh Committee
Q. A. Ghosh Committee
R. Bhandari Committee
S. Abid Hussain Committee
List II: (Purposes)
1. Reconstruction of the RRBs
2. Malpractices and frauds in India
3. For smaller Industries
4. Financing the Infrastructure sector
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-1, R-2, S-3
(C) P-1, Q-2, R-4, S-3
(D) P-4, Q-2, R-1, S-3

Oct/Nov 2009

39. Consider the following statements regarding committee roles:
I. The Aditya Puri Committee was set up for smaller industries.
II. The Abid Hussain Committee was set up for the dissemination of information related to credit.
Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2013

40. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. James Raj Committee
Q. Bhandari Committee
R. Bhide Committee
S. Cook Committee
List II: (Purposes)
1. Coordination between SFC's and commercial banks
2. To check Capital adequacy of banks
3. The functioning of public sector banks
4. Reconstruction of the RRBs
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-4, R-1, S-2

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Oct/Nov 2023

41. Consider the statements below:
I. The K.M. Chandrasekhar committee rationalized foreign investment norms.
II. The Vaghul Committee focused on India's money market.
III. The R.V. Gupta Committee dealt with small savings.
Which of the combinations correctly represents the respective committee mandates?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2022

42. The most appropriate expert panel referenced for issues specifically related to the Resolution Framework during the Covid-19 pandemic is the:
(A) Suma Verma Committee
(B) Bimal Jalan panel
(C) K.V. Kamath Panel
(D) Deepak Parekh Committee

Oct/Nov 2016

43. Identify the correct pair representing a committee and its purpose among the following.
(A) S.P. Talwar Committee - Non-Banking Financial Companies (NFBC) reforms
(B) R.H. Khan Committee - Harmonizing the role of financial institutions
(C) A.C. Shah Committee - Suggesting the measures related to boost in MSME exports
(D) R.S. Gujral Committee - Restructuring the weak Public Sector Banks

adequacy of banks.
III. The Damodaran Committee restructured commercial banks.
Which of the statements given above is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2020

58. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. Damodaran Committee
Q. Deepak Parekh Committee
R. Dinesh Sharma Committee
S. Tandon Committee
List II: (Purposes)
1. Financing the Infrastructure sector
2. Processing for credit / working capital assessment
3. Improving customer services in the banks
4. Proposing the new regulation that is related to virtual or digital currencies
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2008

59. Consider the following statements:
I. The AK Bhuchar Committee deals with coordination between commercial banks and term lending institutions.
II. The Bimal Jalan panel deals with scrutinizing the applications for new bank licenses.
Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2015

60. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. AK Bhuchar Committee
Q. C Rangarajan Committee
R. SN Verma Committee (1999)
S. Suma Verma Committee
List II: (Purposes)
1. Revising and updating the Banking Ombudsman Scheme, 2006
2. Eliminating the poverty scale of the country
3. Coordination between commercial banks and term lending institutions
4. Restructuring of Commercial Banks
(A) P-2, Q-3, R-1, S-4
(B) P-3, Q-2, R-4, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-4, R-2, S-1

Oct/Nov 2020

61. Consider the following statements regarding committee focus areas:
I. The James Raj Committee assessed the functioning of public sector banks.
II. The Bhandari Committee reconstructed the RRBs.
III. The Bhide Committee coordinated between SFC's and commercial banks.
IV. The C Rangarajan Committee eliminated the poverty scale of the country.
V. The Cook Committee evaluated HR issues in public sector banks.
Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2010

62. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The A. Ghosh Committee was established for India's money market.
Reason (R): Malpractices and frauds in India require specialized investigation panels to formulate preventive guidelines.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

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2. Processing for credit / working capital assessment
3. Scrutinizing the applications for new bank licenses
4. Expert Committee on Resolution Framework Covid -19 related issue

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-2, R-3, S-1
(C) P-4, Q-3, R-2, S-1
(D) P-1, Q-3, R-4, S-2

Oct/Nov 2014

51. Consider the following statements:

I. The Suma Verma Committee revised and updated the Banking Ombudsman Scheme, 2006.
II. The Dinesh Sharma Committee proposed regulations related to virtual or digital currencies.
III. The Deepak Parekh Committee managed data and information in the RBI.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2023

52. Based on the specific temporal markers associated with their respective topics, arrange the following committees in the correct chronological sequence of the events they addressed:

I. SN Verma Committee
II. K.V. Kamath Panel
III. Suma Verma Committee

Which of the following represents the correct chronological sequence?
(A) I, II, III
(B) I, III, II
(C) III, I, II
(D) II, III, I

Oct/Nov 2010

53. Match the Committees in List-I with their purposes in List-II.

List I: (Committees)
P. Narasimham Committee
Q. Parthasarathi Shome Committee
R. R. Jilani Committee
S. R.H. Khan Committee

List II: (Purposes)
1. Banking Inspection System
2. Harmonizing the role of financial institutions
3. For reforms related to Banking Sector
4. GAAR Implementation

(A) P-3, Q-1, R-4, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-4, R-3, S-1

May/June 2005

54. Consider the following statements:

I. The Tandon Committee was formed for processing credit and working capital assessment.
II. The Narasimham Committee was formed for reforms related to the Banking Sector.

Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2012

55. Consider the following committee pairings and identify which of the following pairs is correctly matched.

(A) Deepak Mohanty Committee - Management of Data and information in the RBI
(B) Cook Committee - The functioning of public sector banks
(C) James Raj Committee - To check Capital adequacy of banks
(D) Bhide Committee - Eliminating the poverty scale of the country

May/June 2008

56. For establishing a robust Banking Inspection System, the recommendations of which committee serve as the most appropriate reference?
(A) R. Jilani Committee
(B) A. Ghosh Committee
(C) Tandon Committee
(D) Narasimham Committee

Oct/Nov 2025

57. Consider the following statements regarding RBI committees:

I. The C Rangarajan Committee focused on eliminating the poverty scale of the country.
II. The Cook Committee checked the capital

NODIA

(B) SN Verma Committee
(C) Bhandari Committee
(D) S.P. Talwar Committee

Oct/Nov 2012

93. Following a surge in customer complaints regarding hidden charges, unresponsive branch staff, and complex grievance redressal mechanisms, a leading commercial bank decides to implement a zero-tolerance policy for poor service. They model their new customer service charter entirely on the recommendations of the committee set up for improving customer services in the banks. Which committee is this?
(A) Suma Verma Committee
(B) Tandon Committee
(C) James Raj Committee
(D) Damodaran Committee

May/June 2011

94. An applicant submits a comprehensive proposal to set up a new universal bank. The central bank initiates a rigorous vetting process of the promoters' background, financial strength, and business plan. This strict scrutiny process is based on the framework designed by the panel specifically responsible for scrutinizing the applications for new bank licenses. Which panel is this?
(A) AK Bhuchar Committee
(B) Narasimham Committee
(C) Bimal Jalan panel
(D) James Raj Committee

Oct/Nov 2007

95. In an effort to streamline the flow of credit history and default data across various lending institutions, a credit bureau upgrades its technological infrastructure. The underlying regulatory push for this upgrade stems from the committee focused on the dissemination of information related to credit. Which committee drove this initiative?
(A) Aditya Puri Committee
(B) Deepak Mohanty Committee
(C) Tandon Committee
(D) Bimal Jalan panel

May/June 2016

96. An international regulatory body expresses concerns regarding the capital buffers maintained by banks in emerging markets. In response, a domestic regulatory agency demonstrates its robust framework by citing the specific committee that was established to check the capital adequacy of banks. Which committee serves this role?
(A) Bimal Jalan panel
(B) Cook Committee
(C) R.H. Khan Committee
(D) Vaghul Committee

Oct/Nov 2025

97. A consortium of small-scale manufacturing units seeks customized credit facilities tailored to their operational cycles, arguing that standard corporate loan structures are unsuitable for them. They petition the banks to adopt the specialized framework recommended by the committee set up for smaller Industries. Which committee is this?
(A) Abid Hussain Committee
(B) R.S. Gujral Committee
(C) R.V. Gupta Committee
(D) C Rangarajan Committee

May/June 2015

98. Several Non-Banking Financial Companies (NBFCs) experienced liquidity crunches, prompting the regulatory authority to mandate stricter asset-liability management rules. To contextualize these new rules, industry experts refer to the foundational committee dedicated to Non-Banking Financial Companies (NFBC) reforms. Which committee is it?
(A) S.P. Talwar Committee
(B) A.C. Shah Committee
(C) R.H. Khan Committee
(D) James Raj Committee

Oct/Nov 2017

99. To evaluate the tax implications of complex cross-border financial transactions and prevent tax evasion, a financial advisory firm strictly advises its corporate clients to adhere to the implementation framework of the General Anti Avoidance Rule (GAAR). The framework was structured under the guidance of which committee?
(A) R. Jilani Committee
(B) K.M. Chandrasekhar committee
(C) A.C. Shah Committee
(D) Parthasarathi Shome Committee

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Oct/Nov 2015

63. Read the statements below carefully:
I. The Cook Committee evaluated capital adequacy of banks.
II. The Damodaran Committee improved customer services in banks.
III. The SN Verma Committee (1999) restructured Commercial Banks.
IV. The Deepak Parekh Committee focused on financing the Infrastructure sector.
Which of the following represents the correct combination?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2024

64. A newly appointed HR head of a massive public sector bank is tasked with overhauling the performance appraisal and employee welfare systems. To ensure the new policies align with historical regulatory perspectives on HR related issues of public sector banks, which committee's framework should the HR head consult?
(A) James Raj Committee
(B) S.P. Talwar Committee
(C) A.K. Khandelwal Committee
(D) Damodaran Committee

Oct/Nov 2018

65. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The Cook Committee was set up specifically for checking the capital adequacy of banks.
Reason (R): The functioning of public sector banks required oversight from the Cook Committee.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

66. A digital payments startup is evaluating the feasibility of launching a blockchain-based virtual token for its user base. The legal compliance team advises caution and points to an RBI committee that was tasked with proposing new regulations related to virtual or digital currencies. Which committee's mandate does the legal team highlight?
(A) Dinesh Sharma Committee
(B) Aditya Puri Committee
(C) Deepak Mohanty Committee
(D) Parthasarathi Shome Committee

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Oct/Nov 2011

67. Examine the following statements regarding financial committees:
I. The A.K. Khandelwal Committee resolved HR related issues of public sector banks.
II. The K.V. Kamath Panel acted as an Expert Committee on Resolution Framework Covid-19 related issue.
III. The Bimal Jalan panel scrutinized applications for new bank licenses.
IV. The Deepak Mohanty Committee checked the capital adequacy of banks.
Which of the statements are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

May/June 2019

68. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The Parthasarathi Shome Committee was responsible for GAAR (General Anti Avoidance Rule) Implementation.
Reason (R): A dedicated panel was required to formulate the implementation strategy for GAAR.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

81. A state government is planning to construct a series of multi-lane expressways and requires massive long-term capital. Banks approach this requirement cautiously due to asset-liability mismatch concerns. To structure this lending safely, banks refer to the guidelines of the committee specifically formulated for financing the Infrastructure sector. Which committee is this?
(A) C Rangarajan Committee
(B) R.H. Khan Committee
(C) Deepak Parekh Committee
(D) Abid Hussain Committee

May/June 2021

82. Identify the correct statements from the following regarding committee mandates:
I. The AK Bhuchar Committee coordinated between commercial banks and term lending institutions.
II. The Bimal Jalan panel scrutinized applications for new bank licenses.
III. The Deepak Mohanty Committee managed Data and information in the RBI.
IV. The Abid Hussain Committee was for smaller Industries.
V. The Aditya Puri Committee focused on disseminating information related to credit.
Which of the above statements are correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2017

83. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The Bimal Jalan panel was constituted by the regulatory authority.
Reason (R): There was a requirement for scrutinizing the applications for new bank licenses.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

84. A consortium of commercial banks and term lending institutions is struggling to align their financing terms for large-scale industrial projects. They need a policy framework that provides coordination guidelines between these two distinct types of entities. The recommendations of which committee address this exact coordination issue?
(A) Bhide Committee
(B) James Raj Committee
(C) AK Bhuchar Committee
(D) Bhandari Committee

Oct/Nov 2022

85. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The R. Jilani Committee evaluated the Banking Inspection System.
Reason (R): Robust banking inspection frameworks are critical for maintaining regulatory compliance.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2014

86. Evaluate the assertions regarding committee purposes:
I. The Tandon Committee assessed processing for credit / working capital.
II. The Narasimham Committee worked on reforms related to the Banking Sector.
III. The Parthasarathi Shome Committee implemented GAAR.
IV. The R. Jilani Committee formulated the Banking Inspection System.

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Oct/Nov 2023

75. Following the severe economic impact of a global health crisis in 2020, numerous businesses faced severe cash flow issues. The regulatory authority needed an expert panel to design a resolution framework specifically for Covid-19 related issues to manage the stressed assets without causing systemic failure. Which panel was set up for this specific purpose?
(A) Suma Verma Committee
(B) SN Verma Committee
(C) Deepak Parekh Committee
(D) K.V. Kamath Panel

May/June 2022

76. Consider the following mandates corresponding to RBI committees:
I. Abid Hussain Committee - For smaller Industries
II. Aditya Puri Committee - Dissemination of Information related to credit
III. Bhandari Committee - Reconstruction of the RRBs
IV. Bhide Committee - The functioning of public sector banks
Which of the above statement(s) is/are correct?
(A) I, II, and IV only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2014

77. In response to increasing instances of sophisticated financial crimes and embezzlement in the banking network, the regulatory authority decides to revisit historical guidelines laid down to curb such activities. To understand the foundational measures suggested against malpractices and frauds in India, which committee's report is most relevant?
(A) A.C. Shah Committee
(B) R. Jilani Committee
(C) K.M. Chandrasekhar committee
(D) A. Ghosh Committee

May/June 2016

78. Read the following statements:
I. The Damodaran Committee improved customer services in the banks.
II. The SN Verma Committee (1999) restructured Commercial Banks.
III. The Deepak Parekh Committee focused on financing the Infrastructure sector.
IV. The Dinesh Sharma Committee proposed new regulations related to virtual or digital currencies.
V. The Suma Verma Committee revised and updated the Banking Ombudsman Scheme, 2006.
Which is the correct combination of statements?
(A) I, II, IV, and V only
(B) II, III, IV, and V only
(C) I, II, III, and IV only
(D) I, II, III, IV, and V

Oct/Nov 2007

79. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The Vaghul Committee focused its recommendations on India's money market.
Reason (R): Money market efficiency requires structured regulatory recommendations from expert committees.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

80. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The Tandon Committee focused primarily on proposing new regulations related to virtual or digital currencies.
Reason (R): The Tandon Committee was established to provide guidelines for processing credit and working capital assessment.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation

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May/June 2014

44. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. A.K. Khandelwal Committee
Q. K.M. Chandrasekhar committee
R. Vaghul Committee
S. R.V. Gupta Committee
List II: (Purposes)
1. India's money market
2. For Small Savings
3. HR related issues of public sector banks
4. Rationalizing the foreign investment norms
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-1, R-4, S-2
(C) P-1, Q-2, R-3, S-4
(D) P-3, Q-4, R-1, S-2

Oct/Nov 2019

45. Read the following statements regarding committee mandates:
I. The Bhandari Committee was set up for the reconstruction of the RRBs.
II. The Bhide Committee was tasked with coordination between SFC's and commercial banks.
III. The James Raj Committee focused on the functioning of public sector banks.
Which combination of statements is fully correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2007

46. If a policy framework is being drafted to support smaller industries, the underlying principles are best aligned with the mandate of which committee?
(A) R.S. Gujral Committee
(B) Abid Hussain Committee
(C) C Rangarajan Committee
(D) Vaghul Committee

Oct/Nov 2024

47. Consider the following statements regarding committee objectives:
I. The Parthasarathi Shome Committee was responsible for GAAR Implementation.
II. The R. Jilani Committee was responsible for harmonizing the role of financial institutions.
Which of the above statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2011

48. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. Bimal Jalan panel
Q. Deepak Mohanty Committee
R. Abid Hussain Committee
S. Aditya Puri Committee
List II: (Purposes)
1. For smaller Industries
2. Dissemination of Information related to credit
3. Management of Data and information in the RBI
4. Scrutinizing the applications for new bank licenses
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-4, Q-1, R-3, S-2
(D) P-1, Q-2, R-4, S-3

Oct/Nov 2005

49. Identify the incorrectly matched pair from the following options.
(A) Damodaran Committee - Restructuring of Commercial Banks
(B) Suma Verma Committee - Revising and updating the Banking Ombudsman Scheme, 2006
(C) Dinesh Sharma Committee - Proposing the new regulation that is related to virtual or digital currencies
(D) Deepak Parekh Committee - Financing the Infrastructure sector

May/June 2018

50. Match the Committees in List-I with their purposes in List-II.
List I: (Committees)
P. K.V. Kamath Panel
Q. Bimal Jalan panel
R. Tandon Committee
S. R. Jilani Committee
List II: (Purposes)
1. Banking Inspection System

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V. The R.H. Khan Committee worked on resolving Covid-19 related framework issues.

Which of the following represents the correct combination?
(A) I, II, III, and IV only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2019

87. A foreign institutional investor wants to infuse capital into the Indian market but finds the existing investment norms complex and layered. The regulatory body references an earlier expert committee report that focused entirely on rationalizing foreign investment norms to clarify the investor's queries. Which committee is this?
(A) Bimal Jalan panel
(B) K.M. Chandrasekhar committee
(C) Vaghul Committee
(D) R.V. Gupta Committee

May/June 2018

88. Consider the following statements about committee roles:
I. R.S. Gujral Committee suggested measures to boost MSME exports.
II. S.P. Talwar Committee restructured weak Public Sector Banks.
III. A.C. Shah Committee dealt with Non-Banking Financial Companies (NFBC) reforms.
IV. A. Ghosh Committee investigated malpractices and frauds in India.
V. A.K. Khandelwal Committee handled HR related issues of public sector banks.

Which combination of statements is correct?
(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2016

89. A multinational corporation wishes to understand the structural reforms applied to the Indian banking sector historically to assess systemic stability. The corporation's research team requires the definitive report that spearheaded comprehensive reforms in the Banking Sector. Which committee's recommendations should they review?
(A) Tandon Committee
(B) Narasimham Committee
(C) R. Jilani Committee
(D) S.P. Talwar Committee

May/June 2007

90. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The Suma Verma Committee undertook the task of revising and updating the Banking Ombudsman Scheme, 2006.
Reason (R): Customer grievances in the banking sector necessitated amendments to the existing Ombudsman framework.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

91. After a period of aggressive branch expansion, a central bank decides to centralize and optimize its internal data repositories to ensure real-time economic surveillance. The structural changes to achieve this are guided by the committee tasked with the Management of Data and information in the RBI. Which committee provided these guidelines?
(A) Dinesh Sharma Committee
(B) Deepak Mohanty Committee
(C) Aditya Puri Committee
(D) C Rangarajan Committee

May/June 2005

92. A regional financial institution established to serve agrarian and rural demographics is facing severe financial distress and operational inefficiencies. The central bank initiates a turnaround strategy based on the historical guidelines formulated specifically for the reconstruction of the RRBs. Which committee's guidelines are being implemented?
(A) Bhide Committee

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Oct/Nov 2013

69. During an internal audit, a major commercial bank detects systemic vulnerabilities in its processes for evaluating and processing short-term loans and working capital for corporate clients. The chief risk officer cites a fundamental committee report that established foundational guidelines for processing credit and working capital assessment. Which committee is being referred to?
(A) Tandon Committee
(B) Deepak Parekh Committee
(C) R.H. Khan Committee
(D) A.C. Shah Committee

May/June 2017

70. Evaluate the assertions regarding committee purposes:
I. The Tandon Committee handled processing for credit / working capital assessment.
II. The Narasimham Committee undertook reforms related to the Banking Sector.
III. The Parthasarathi Shome Committee oversaw GAAR Implementation.
IV. The R. Jilani Committee harmonized the role of financial institutions.
Which of the statements are accurate?
(A) I, II, and IV only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2021

71. In a bid to enhance credit off-take for micro, small, and medium enterprises selling goods overseas, a trade association petitions the central bank for supportive measures. The central bank refers back to a committee that was specifically tasked with suggesting measures related to a boost in MSME exports. Which committee is being referenced?
(A) R.S. Gujral Committee
(B) Abid Hussain Committee
(C) Aditya Puri Committee
(D) A.C. Shah Committee

May/June 2025

72. Consider the roles of the following committees:
I. A.C. Shah Committee - Non-Banking Financial Companies (NFBC) reforms
II. A. Ghosh Committee - Malpractices and frauds in India
III. R.S. Gujral Committee - Suggesting the measures related to boost in MSME exports
IV. S.P. Talwar Committee - Restructuring the weak Public Sector Banks
Which combinations match the correct information?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, II, III, and IV
(D) I, III, and IV only

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Oct/Nov 2009

73. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The K.V. Kamath Panel acted as an Expert Committee on Resolution Framework Covid-19 related issue.
Reason (R): The economic disruption caused by Covid-19 necessitated a specific resolution framework for stressed assets.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

74. The following question consists of two statements: Assertion (A) and Reason (R). Examine these two statements carefully and select the correct answer using the options given below:
Assertion (A): The Deepak Mohanty Committee was formed to address issues related to smaller industries.
Reason (R): The Management of Data and information in the RBI required a dedicated committee structure.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

100. A customer escalated an unresolved dispute regarding an unauthorized electronic transaction to the alternative dispute resolution mechanism established by the central bank. To ensure the grievance framework remains contemporary and effective, it was recently overhauled based on the committee tasked with revising and updating the Banking Ombudsman Scheme, 2006. Which committee executed this revision?

(A) SN Verma Committee
(B) Damodaran Committee
(C) R. Jilani Committee
(D) Suma Verma Committee

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performance incentives, ensuring that state-owned lenders can compete effectively by utilizing their workforce more strategically and efficiently.

34. (C) Both I and II
Regulatory oversight involves panels that address both criminal activities and institutional reforms. Investigating malpractices and frauds helps maintain the integrity of the banking system, while reforming the non-banking financial sector ensures broader financial stability. Both these functions are critical, and the respective committees provided the foundational guidelines necessary to strengthen these different yet interconnected areas of the economy.

35. (A) P-4, Q-2, R-1, S-3
Matching committees with their designated purposes illustrates the breadth of financial regulation. These panels cover diverse areas such as boosting exports for small businesses, restructuring weak financial institutions, investigating fraudulent activities, and reforming non-banking financial entities. Each committee provides targeted recommendations that address specific sectoral needs, contributing to a more robust and well-regulated national economy through specialized policy interventions.

36. (B) I and II only
Successful economic policy is built on the accurate application of recommendations from specialized panels. Some committees focus on enhancing small business exports or restructuring weak state-owned banks. However, tasks like human resource management in the banking sector are handled by entirely different expert groups. Correctly identifying which committee addressed which specific issue is vital for understanding the historical development of regulation.

37. (A) AK Bhuchar Committee
Coordination between different types of financial entities is essential to avoid gaps in industrial credit delivery. A specific committee was tasked with improving the synergy between commercial banks and term lending institutions. These guidelines focused on streamlining the loan appraisal process and ensuring that long-term and short-term funding requirements of borrowers are met in a synchronized and efficient manner.

38. (D) P-4, Q-2, R-1, S-3
The diversity of economic regulation is reflected in the specific tasks assigned to various expert panels. These responsibilities include financing large-scale infrastructure projects, investigating internal banking frauds, reconstructing rural financial institutions, and supporting small-scale industries. Each panel's work is tailored to resolve specific challenges, ensuring that every segment of the economy receives appropriate regulatory guidance and support for growth.

39. (D) Neither I nor II
Distinguishing between committees dedicated to small-scale industries and those focused on the dissemination of credit information is a key aspect of regulatory history. Each panel has a unique mandate that addresses different economic needs. Incorrectly attributing the role of one panel to another, such as swapping small industry support with credit data sharing, leads to a flawed understanding.

40. (D) P-3, Q-4, R-1, S-2
The regulatory landscape is populated by committees with distinct mandates to ensure comprehensive oversight. Some panels evaluate the operational functioning of state lenders or focus on the reconstruction of rural banks. Others facilitate coordination between state financial corporations and commercial banks or check capital adequacy. Correctly matching these committees to their specific tasks is essential for understanding the banking framework.

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41. (D) I, II, and III
Expert panels provide the necessary guidelines for managing foreign capital, money market operations, and small savings programs. These three areas are fundamental to the national financial architecture. By rationalizing investment rules, enhancing market liquidity, and optimizing savings schemes, these committees ensure that the economy functions smoothly and that both institutional and individual participants can participate effectively.

42. (C) K.V. Kamath Panel
Unprecedented economic challenges require swift and specialized regulatory responses to prevent systemic instability. During the recent global health crisis, an expert panel was specifically

Their recommendations aimed to improve management practices and service delivery standards, ensuring these institutions effectively meet the socio-economic and commercial objectives of the nation.

9. (B) The Dinesh Sharma Committee dealt with malpractices and frauds in India.
Regulatory committees are appointed with very specific terms of reference to ensure clarity in policy development. Errors in associating a committee with its primary task, such as confusing digital currency regulation with fraud investigation, can hinder effective oversight. Each panel provides specialized insights into its designated area, whether it involves financial technology, banking inspection systems, or institutional roles.

10. (C) Eliminating the poverty scale of the country
Accurately measuring the socio-economic status of a population is essential for effective welfare policy implementation. A high-level committee was tasked with reviewing the methodology used to define the poverty scale within the country. Their findings provided a revised framework for identifying marginalized groups, ensuring that government subsidies and development programs reach the most vulnerable segments of society efficiently.

11. (D) Parthasarathi Shome Committee - Financing the Infrastructure sector
Identifying the correct mandate for each expert panel is crucial for understanding the history of financial reforms. Some committees are dedicated to scrutinizing bank licenses or tax implementation, while others focus on specific funding mechanisms. Mislabeling a committee that manages tax rules as an infrastructure finance entity represents a factual inaccuracy in the historical and functional record of regulation.

12. (C) K.M. Chandrasekhar Committee
Attracting international capital requires clear and simplified rules for institutional and individual investors from abroad. A specialized committee was formed to rationalize the norms governing foreign investment into the domestic market. These recommendations aimed to eliminate regulatory hurdles, improve the ease of doing business, and ensure a stable and predictable environment for foreign capital inflows and management.

13. (A) The Suma Verma Committee was responsible for revising and updating the Banking Ombudsman Scheme, 2006.
The alternative dispute resolution mechanism in the banking sector provides a vital platform for addressing consumer grievances efficiently. A dedicated committee was assigned to revise and update the existing Banking Ombudsman Scheme. These updates were intended to make the grievance redressal process more comprehensive and responsive to the evolving needs of bank customers in an increasingly digital landscape.

14. (C) Bhide Committee
Effective financial intermediation requires seamless cooperation between specialized lending agencies and commercial lenders at the state level. A specific committee focused on improving the coordination between State Financial Corporations and commercial banks. These recommendations were designed to facilitate better credit flow to regional industries by minimizing overlaps and enhancing the synergy between different types of financial institutions.

15. (D) Bhide Committee - Coordination between commercial banks and term lending institutions
Regulatory frameworks often involve multiple committees working on distinct aspects of financial coordination and reform. While some panels focus on bank restructuring or credit assessment, others specifically address the synergy between commercial banks and regional financial entities. Incorrectly pairing a committee with its designated coordination task can lead to a misunderstanding of how different sectors of the financial system interact.

16. (A) Parthasarathi Shome Committee
Taxation systems often require robust mechanisms to prevent the misuse of legal provisions for the sole purpose of tax avoidance. A specialized committee was established to provide a roadmap for the implementation of the General Anti Avoidance Rule. These guidelines help tax authorities identify and challenge transactions that lack commercial substance and are primarily intended to obtain tax benefits.

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51. (A) I and II only
Updating grievance redressal systems and regulating digital currencies are modern regulatory priorities addressed by specific committees. These panels provide contemporary guidelines to protect consumers and manage the risks associated with financial technology. While other groups might focus on infrastructure finance or data management, the work of these committees is crucial for maintaining the relevance and security of the system.

52. (B) I, III, II
The sequence of regulatory initiatives reflects the evolving challenges of the financial sector over time. Broad commercial bank restructuring initiatives in the late nineties preceded more recent efforts to modernize the banking ombudsman framework. The most contemporary development in this progression was the formation of an expert panel to handle the unique financial disruptions caused by a global pandemic.

53. (C) P-3, Q-4, R-1, S-2
Financial oversight is achieved through panels dedicated to bank reforms, tax implementation, inspection systems, and institutional harmonization. These committees provide the foundational rules that govern how banks operate, how taxes are managed, and how different financial entities interact. Correctly associating each panel with its specific task is vital for understanding the multi-layered approach used to regulate the domestic ecosystem.

54. (C) Both I and II
Standardizing credit assessment and implementing broad banking reforms are two pillars of financial stability. One panel established the rules for evaluating corporate working capital requirements, while another focused on structural changes to improve the overall efficiency of the banking sector. Both initiatives were essential for creating a modern, disciplined, and competitive financial environment that supports sustainable and balanced growth.

55. (A) Deepak Mohanty Committee - Management of Data and information in the RBI
Accurate management of statistical information within the central bank is a critical regulatory function that ensures informed policy decisions. A dedicated committee provided the framework for managing data and information systems. This role is distinct from other banking functions like checking capital adequacy or evaluating the functioning of public sector lenders, highlighting the specialized nature of different panels.

56. (A) R. Jilani Committee
A robust system for internal and external audits is necessary to ensure that banks adhere to regulatory standards and maintain financial integrity. A specific committee was tasked with evaluating and improving the banking inspection system. These recommendations focused on enhancing the quality of supervision and ensuring that potential risks and operational weaknesses are identified and addressed in a timely manner.

57. (A) I and II only
Policy development in the financial sector includes efforts to define poverty measurement, ensure bank capital adequacy, and improve customer service. Specialized committees provide the expertise needed for these diverse tasks. While some panels focus on the socio-economic indicators like the poverty scale, others ensure that banks maintain enough capital to stay solvent and provide quality services.

58. (A) P-3, Q-1, R-4, S-2
Regulatory frameworks address multiple facets of the economy, including customer service quality, infrastructure funding, digital currency rules, and credit assessment. Expert panels provide targeted guidelines for each of these areas, ensuring that bank customers are protected, large-scale projects are funded, new technologies are regulated, and loans are appraised using standardized and transparent methods across the banking sector.

59. (C) Both I and II
Synergy between different types of financial institutions and the careful vetting of new bank entrants are vital for a stable banking environment. Specialized panels provide the frameworks for coordination between commercial and term lending bodies and for the rigorous scrutiny of applications for new bank licenses. These measures ensure that the

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25. (B) The R.S. Gujral Committee suggested measures related to boosting MSME exports.
Boosting the presence of small and medium enterprises in global trade requires targeted policy interventions. A specialized committee suggested measures specifically designed to enhance the export potential of micro, small, and medium enterprises. These recommendations focused on improving access to finance, simplifying trade procedures, and providing institutional support to help smaller firms compete effectively in international markets.

26. (D) Cook Committee
Maintaining a minimum level of capital is essential for banks to absorb potential losses and protect depositors' interests. A specific committee was established to evaluate and verify the capital adequacy of banking institutions. These standards ensure that banks remain solvent even during economic downturns, providing a safety net that maintains public confidence and ensures the overall stability of the system.

27. (A) James Raj Committee - Restructuring the weak Public Sector Banks
Each financial panel is created to address a specific challenge, such as poverty elimination, malpractices investigation, or bank restructuring. Some committees focus on the general functioning of public sector lenders, while others specifically handle the rehabilitation of weak financial institutions. Misassociating a committee tasked with general bank functioning with the restructuring of weak banks leads to an incorrect policy interpretation.

28. (A) Deepak Mohanty Committee
The effective use of statistical information is crucial for the central bank to perform its supervisory and policy functions. A dedicated committee was formed to manage the data and information systems within the Reserve Bank of India. This panel provided a framework for improving data collection, storage, and analysis, ensuring that the regulatory authority has access to accurate financial information.

29. (C) The Bhandari Committee is associated with the functioning of public sector banks.
Differentiating between the reconstruction of rural lenders and the general functioning of public sector banks is important for regulatory accuracy. While certain committees focus on the specific needs of smaller industries or money markets, others are tasked with reviving regional rural institutions. Claiming a committee responsible for rural bank reconstruction was focused on general public sector bank functioning is incorrect.

30. (D) S.P. Talwar Committee
The financial health of state-owned lenders is critical for maintaining systemic stability, especially when certain institutions show signs of weakness. A specialized committee was tasked with the restructuring of weak public sector banks. Their recommendations focused on capital infusion, operational improvements, and strategic changes to help these institutions recover their financial strength and fulfill their mandated role in the economy.

31. (A) I, II, III
The timeline of financial regulation in India follows the emergence of specific economic challenges. Commercial bank restructuring was a primary focus in the late nineties, followed later by the modernization of the banking ombudsman framework. More recently, the global health crisis necessitated a specialized resolution framework for stressed assets, representing the most recent milestone in this sequence of regulatory events.

32. (B) K.V. Kamath Panel - HR related issues of public sector banks
Expert panels are designated for specific time-bound or theme-based tasks to ensure focused policy outcomes. While some committees handle long-term issues like foreign investment or small savings, others are formed to address immediate crises such as pandemic-related financial stress. Confusing a panel created for crisis resolution with one tasked with long-term human resource management in banks results in inaccuracies.

33. (B) A.K. Khandelwal Committee
Modernizing personnel policies in the banking sector is essential for improving productivity and service quality. A dedicated committee provided a comprehensive framework for addressing human resource challenges within public sector banks. These recommendations covered areas such as recruitment, talent management, and

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ANSWERS

1. (D) A. Ghosh
The investigation and prevention of financial irregularities within the Indian banking system required a structured regulatory approach. A specialized committee was established to scrutinize various malpractices and fraudulent activities occurring in the financial sector. This panel formulated comprehensive guidelines to strengthen internal controls, ensuring the integrity and stability of domestic banking operations against various systemic and operational risks.

2. (C) It was established for Small Savings
The mobilization and management of small-scale savings represent a critical component of the domestic financial ecosystem. A dedicated committee was tasked with evaluating the existing framework for small savings to provide recommendations for improvement. This expert group focused on optimizing the returns and accessibility of these investment instruments for retail savers across the entire country to ensure efficiency.

3. (C) Processing for credit and working capital assessment
The formulation of standardized norms for bank lending was essential for maintaining credit discipline in the corporate sector. A specific committee established a framework for assessing working capital requirements and creditworthiness of borrowers. These guidelines ensured that bank finance was utilized for productive purposes while maintaining sufficient liquidity and financial health within the corporate borrower's day-to-day operations.

4. (C) The R.S. Gujral Committee focused on the functioning of public sector banks.
Financial committees are established with specific mandates to address various sectors of the economy. While some panels focus on customer service or foreign investment, others are tasked with enhancing export capabilities. Misidentifying a committee's role can lead to incorrect policy interpretations, as seen when a panel focused on micro and small enterprise exports is misassociated with bank functioning.

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5. (A) Aditya Puri Committee
Providing lenders with accurate and timely data on borrower credit history is vital for reducing non-performing assets and promoting financial stability. A specialized committee recommended the systematic sharing of credit information among financial institutions. This framework facilitates better risk assessment and credit decision-making, ensuring that capital is allocated efficiently to reliable borrowers within the domestic financial system.

6. (B) R.S. Gujral Committee
Many regulatory panels are created to handle internal banking operations, such as restructuring or inspection systems. However, some committees focus on broader economic objectives like enhancing the export potential of small and medium enterprises. These specialized groups provide strategic recommendations to improve international competitiveness, which is distinct from the structural and operational management tasks typically associated with banking reforms.

7. (B) Dinesh Sharma Committee
The emergence of blockchain-based financial assets necessitated a formal regulatory framework to manage potential risks and legal implications. A specific committee was constituted to examine the impact of virtual or digital currencies on the financial system. This panel proposed regulations to balance innovation with financial security, addressing concerns related to consumer protection, money laundering, and monetary policy stability.

8. (B) The James Raj Committee focused on the functioning of public sector banks.
Monitoring the performance and operational efficiency of state-owned lenders is a recurring theme in Indian financial regulation. A particular committee was directed to examine the various aspects of the functioning of public sector banks.

tasked with formulating a resolution framework for stressed assets. This framework provided banks with the necessary tools to manage loans affected by the pandemic, balancing the need for borrower support with the maintenance of health.

43. (B) R.H. Khan Committee - Harmonizing the role of financial institutions
Harmonizing the roles of various financial entities ensures that they complement each other rather than competing inefficiently. A specific committee was formed to provide a framework for better alignment between different types of financial institutions. This ensures that the financial system can provide a wide range of services while maintaining clarity in the roles and responsibilities of each entity.

44. (D) P-3, Q-4, R-1, S-2
Managing a national economy involves addressing specialized areas such as bank personnel issues, foreign investment rules, money market liquidity, and small savings incentives. Dedicated committees provide the expert insights needed to regulate these diverse sectors. Understanding which panel is responsible for which task, from human resources to investment norms, is fundamental to mastering the history of domestic financial policy.

45. (D) I, II, and III
The historical development of banking regulation is marked by committees that addressed rural bank reconstruction, coordination between state financial bodies and commercial lenders, and the general functioning of public sector banks. Each of these panels provided critical recommendations that shaped the current operational landscape, ensuring that various types of financial institutions can work effectively toward common national goals.

46. (B) Abid Hussain Committee
Developing a supportive environment for small-scale manufacturing and service units requires specialized policy frameworks. A dedicated committee focused on the unique challenges faced by smaller industries, recommending measures to improve their access to credit and institutional support. These guidelines ensure that the smaller segments of the industrial sector can thrive and contribute significantly to the overall national economic growth.

47. (A) Only I
Implementing complex tax rules requires a specialized roadmap to ensure clarity for both authorities and taxpayers. A dedicated committee was established to provide the framework for the implementation of the General Anti Avoidance Rule. While other panels might handle banking inspection systems, this specific group focused entirely on the strategic application of tax avoidance prevention measures within the domestic framework.

48. (B) P-4, Q-3, R-1, S-2
Regulatory bodies rely on various expert panels to handle specialized tasks like scrutinizing new bank applications or managing internal data systems. Other committees focus on supporting small businesses or improving the flow of credit information. Each panel contributes unique expertise, ensuring that the financial system remains competitive, transparent, and well-managed across all its operational, administrative, and developmental functions.

49. (A) Damodaran Committee - Restructuring of Commercial Banks
Each regulatory panel has a distinct focus, ranging from improving customer service to managing infrastructure finance or digital currency regulation. Restructuring commercial banks is a significant task that is handled by specific committees, which is different from the mandate of a group focused entirely on enhancing service quality for bank clients. Confusing these roles misrepresents the specific history.

50. (C) P-4, Q-3, R-2, S-1
Navigating the complexities of the financial sector involves specialized committees for crisis management, bank licensing, credit assessment, and inspection systems. These panels provide the necessary guidelines to handle pandemic-related stress, vet new bank applicants, standardize working capital evaluations, and ensure robust internal audits. Correctly identifying the purpose of each group is essential for understanding the nature of regulation.

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complex task that requires expert guidance. A specialized panel was responsible for providing the framework for the General Anti Avoidance Rule. This dedicated committee ensured that the implementation was systematic and provided a clear set of guidelines for both tax authorities and domestic or international taxpayers.

69. (A) Tandon Committee
Standardizing the methods for evaluating short-term credit needs is essential for maintaining financial discipline among corporate borrowers. A landmark committee established the foundational guidelines for processing credit and assessing working capital requirements. These rules ensure that banks provide funding based on objective criteria, helping to prevent the over-leveraging of firms and maintaining the health of the bank's lending portfolio.

70. (B) I, II, and III only
Effective financial regulation relies on committees that specialize in credit assessment, banking sector reforms, and the implementation of tax avoidance rules. These panels provide the necessary guidelines to standardize lending, modernize the banking structure, and prevent tax misuse. While other groups might focus on different coordination tasks, these specific committees are central to the stability and integrity of the system.

71. (A) R.S. Gujral Committee
Supporting the growth of smaller enterprises in international markets requires targeted regulatory and financial measures. A specialized committee was formed to suggest ways to boost the export potential of micro, small, and medium enterprises. These recommendations aimed to simplify trade finance, reduce procedural hurdles, and provide the institutional support necessary for smaller firms to succeed on a global stage.

72. (C) I, II, III, and IV
The regulatory history of the banking sector is defined by panels that addressed non-banking financial entity reforms, investigated malpractices, boosted small business exports, and restructured weak public sector lenders. Each committee provided specialized recommendations that helped resolve specific sectoral challenges, ensuring that every part of the financial system operates within a clear, secure, and supportive regulatory environment today.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The economic impact of a major health crisis necessitated a unique set of rules to manage loan repayments and asset quality. An expert panel was constituted to design a resolution framework specifically for pandemic-related financial stress. This framework allowed banks to restructure loans for viable businesses, preventing widespread defaults and ensuring that the financial system remained stable throughout.

74. (D) Assertion (A) is false, but Reason (R) is true.
Different segments of the financial system require specialized attention, whether it is supporting small industries or managing internal data repositories. While certain committees are dedicated to enhancing data management within the central bank, others focus on providing institutional support for small businesses. Correctly distinguishing between these mandates is essential for understanding how the regulatory authority addresses different economic objectives.

75. (D) K.V. Kamath Panel
Managing stressed assets during an unprecedented economic downturn requires a specialized and time-sensitive regulatory framework. An expert panel was set up to provide a resolution strategy specifically for financial issues arising from the global pandemic. This group formulated guidelines that allowed for the restructuring of loans, helping businesses recover while protecting the financial health of the national banking sector.

76. (B) I, II, and III only
Expert panels provide the necessary frameworks for supporting small industries, disseminating credit information, and reconstructing rural banks. These initiatives are essential for rural development, credit market transparency, and industrial growth. While other committees handle different coordination tasks, these specific groups play a vital role in ensuring that credit

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banking sector remains organized, competitive, and financially sound.

60. (B) P-3, Q-2, R-4, S-1
The banking landscape is shaped by committees that handle institutional coordination, poverty metrics, commercial bank restructuring, and the ombudsman system. These panels provide the necessary guidelines to ensure that financial institutions work together effectively, social welfare is accurately measured, weak banks are rehabilitated, and consumer grievances are addressed through a modern and responsive alternative dispute resolution framework.

61. (A) I, II, III, and IV only
Multiple panels are established to oversee different aspects of the financial system, such as public sector bank functioning, rural bank reconstruction, and inter-institutional coordination. Other committees focus on socio-economic metrics like the poverty scale or technical requirements like capital adequacy. Correctly identifying the mandate for each group is essential for understanding the comprehensive and specialized nature of regulation.

62. (D) Assertion (A) is false, but Reason (R) is true.
Investigating financial crimes requires specialized expertise to identify systemic vulnerabilities and propose preventive measures. While a specific panel was established to study malpractices and frauds, it is important not to confuse its role with committees tasked with money market regulation. Specialized investigation panels are essential for maintaining public trust and ensuring the security of the national banking network over time.

63. (D) I, II, III, and IV
Comprehensive banking regulation involves checking capital adequacy, enhancing customer services, restructuring commercial lenders, and financing large-scale infrastructure projects. Each of these functions is managed by a specific committee that provides targeted recommendations. Together, these guidelines create a balanced financial system that is resilient, customer-focused, operationally efficient, and capable of supporting the long-term developmental needs of the nation.

64. (C) A.K. Khandelwal Committee
Optimizing the performance and welfare of employees in state-owned banks requires a specialized regulatory framework. A dedicated committee provided comprehensive recommendations for addressing human resource challenges in these institutions. These guidelines focused on recruitment, training, and performance management, ensuring that public sector banks have a modern and motivated workforce capable of delivering high-quality services in a competitive global market.

65. (C) Assertion (A) is true, but Reason (R) is false.
Ensuring that banks maintain sufficient capital to absorb losses is a specific and critical regulatory task. A dedicated committee was established specifically to check and verify the capital adequacy of banking institutions. This technical oversight is distinct from the broader management and operational evaluations typically conducted by other panels that focus on the general functioning of public sector lenders.

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66. (A) Dinesh Sharma Committee
The rapid growth of digital financial assets has prompted regulators to establish formal guidelines to manage new risks. A specific committee was tasked with proposing regulations for virtual or digital currencies. This group focused on creating a balanced framework that encourages innovation while protecting consumers and ensuring that the overall financial system remains stable and secure from any potential misuse.

67. (A) I, II, and III only
Successful regulation involves panels that address bank personnel management, pandemic-related financial resolution, and the licensing of new banks. These committees provide the specialized insights needed for diverse tasks ranging from human resource development to crisis management and market entry. However, other functions like data management are handled by different groups, illustrating the multi-layered structure of financial regulatory oversight.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Formulating a clear strategy for the implementation of tax avoidance rules is a

17. (A) The Parthasarathi Shome Committee handled small savings.
Each regulatory panel has a distinct role, ranging from managing infrastructure finance to resolving human resource challenges in public sector entities. Errors in matching a committee with its purpose, such as confusing tax implementation with small savings management, obscure the regulatory history. Understanding the specific contributions of each panel is essential for evaluating the evolution of financial and economic policies.

18. (A) Bhandari Committee
Rural credit delivery systems often require periodic evaluation and restructuring to maintain their operational viability and impact. A dedicated committee was tasked with the reconstruction of Regional Rural Banks to improve their financial health and reach. These reforms focused on streamlining governance, improving asset quality, and ensuring that these banks remain effective instruments for providing credit to the agrarian sector.

19. (D) The Narasimham Committee was constituted for reforms related to the Banking Sector.
The transformation of the financial sector is often driven by comprehensive reform agendas set by expert panels. A landmark committee was established to provide recommendations for broad reforms within the banking sector. These proposals focused on enhancing competitiveness, improving operational efficiency, and strengthening the overall regulatory framework to align the domestic banking system with international standards and practices.

20. (A) Damodaran Committee
Elevating the standard of interaction between financial institutions and their clients is a key regulatory priority. A specialized committee was formed to suggest measures for improving customer services within the banking sector. These recommendations emphasized transparency, timely grievance redressal, and the simplification of procedures, aiming to protect consumer interests and enhance the overall banking experience for the general public.

21. (C) A.C. Shah Committee - Harmonizing the role of financial institutions
Regulatory clarity is maintained when the specific functions of various advisory panels are correctly identified. While some committees focus on money market operations or small savings, others handle the reforms of non-banking financial entities. Confusing the roles of panels dedicated to non-banking entities with those tasked with harmonizing financial institutions can lead to inaccurate conclusions regarding the regulatory framework.

22. (B) HR related issues of public sector banks
Managing the workforce within state-owned financial institutions involves addressing complex issues related to performance, training, and welfare. A dedicated committee was established to focus specifically on human resource related issues in public sector banks. Their recommendations aimed to modernize personnel management, improve employee productivity, and ensure that these banks have a motivated workforce capable of meeting modern challenges.

23. (D) Deepak Parekh Committee
Long-term projects such as roads, bridges, and power plants require specialized funding mechanisms to manage the associated risks and extended gestation periods. An expert committee was constituted to provide a framework for financing the infrastructure sector effectively. These guidelines focused on developing innovative financial instruments and creating an enabling environment for both public and private investment in critical national projects.

24. (D) The Cook Committee evaluated the poverty scale of the country.
Accurate historical data regarding committee mandates is vital for understanding economic policy evolution. While certain panels scrutinize bank licenses or facilitate coordination between financial entities, others are tasked with restructuring commercial lenders. Associating a committee focused on capital adequacy with poverty measurement is a factual error, as poverty assessment involves entirely different methodologies and socio-economic objectives.

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reaches various sectors of the national economy efficiently and reliably.

77. (D) A. Ghosh Committee
Maintaining integrity in the banking network involves a continuous effort to identify and prevent financial irregularities. A specific committee provided the foundational guidelines for addressing malpractices and frauds within the country. These recommendations focused on strengthening internal controls and audit mechanisms, ensuring that banks have the necessary tools to detect and stop fraudulent activities before they cause systemic damage.

78. (D) I, II, III, IV, and V
The modernization of the financial sector involves improving customer service, restructuring commercial banks, funding infrastructure, and regulating digital currencies. Additionally, updating the grievance redressal framework ensures that consumer interests are protected. Expert committees provide the specialized guidance needed for each of these areas, creating a comprehensive regulatory environment that is responsive to both traditional banking and emerging technological challenges.

79. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
Developing a structured and efficient market for short-term financial instruments is a key objective for economic stability. A dedicated committee provided the necessary recommendations to strengthen the national money market. These expert guidelines help ensure sufficient liquidity, transparency, and participation, which are critical for the effective implementation of monetary policy and the overall functioning of the broader financial economy.

80. (D) Assertion (A) is false, but Reason (R) is true.
Regulatory committees are assigned precise tasks to avoid overlap and ensure expert guidance. While certain panels might focus on emerging technologies like digital currencies, others are dedicated to foundational banking tasks such as establishing rules for credit and working capital assessment. Recognizing the specific role of each panel is essential for accurate policy analysis and understanding the banking sector's historical development.

81. (C) Deepak Parekh Committee
Developing critical national projects requires a specialized approach to manage long-term financing and the unique risks of the infrastructure sector. An expert committee provided the framework for funding these projects effectively. These guidelines help banks and investors structure their participation in a way that supports sustainable development while maintaining financial stability and managing potential asset-liability mismatches over long durations.

82. (D) I, II, III, IV, and V
The successful management of the financial system relies on panels that coordinate between different types of lenders, scrutinize new bank entrants, manage internal data, and support smaller industries. Additionally, enhancing the flow of credit information is vital for risk management. Together, these committees provide the specialized frameworks needed to maintain a competitive, transparent, and well-regulated domestic banking environment.

NODIA

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Expanding the banking sector requires a careful and rigorous process for vetting new participants to maintain public trust. A specialized panel was established to scrutinize applications for new bank licenses. This process ensures that only promoters with sufficient financial strength, professional experience, and integrity are allowed to enter the market, thereby protecting the overall health and stability of the system.

84. (C) AK Bhuchar Committee
Synergy between various lending entities is necessary to ensure that industrial projects receive comprehensive financial support. A specific committee focused on improving coordination between commercial banks and term lending institutions. These recommendations aimed to align their lending practices and appraisal processes, ensuring that businesses can access both long-term and short-term capital in a more streamlined and efficient manner through banks.

I. Extended Fund Facility (EFF)
II. Stand-by Arrangement
III. Structural adjustment programme
IV. Commercial-grade sovereign state infrastructure financing
V. Compensatory Financing Facility (CFF)

Which of the above are explicitly included in the IMF's programmes and facilities?
(A) I, II, III, and V only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2016

43. Consider the following statements regarding the expansion of the IBRD's mandate over time:
I. Following the reconstruction of Europe, its mandate expanded to advancing worldwide economic development.
II. Its expanded mandate includes eradicating poverty.
III. It ceased providing loans to sovereign states after expanding its mandate.

Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2014

44. What is the core definition of the International Bank for Reconstruction and Development (IBRD)?
(A) An international financial institution owned by central banks that fosters monetary cooperation.
(B) A global regulatory body that develops the Basel Capital Accords.
(C) An organization strictly providing short-term stand-by arrangements for BOP difficulties.
(D) An international financial institution that offers loans to middle income developing countries.

Oct/Nov 2007

45. Consider the following statements regarding the ownership and governance of the IBRD:
I. It is owned and governed by its member states.
II. It has its own executive leadership and staff.
III. Member governments are shareholders.
IV. Member governments contribute paid-in capital.
V. Member governments have the right to vote on its matters.

Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2025

46. Consider the following statements about IMF facilities:
I. The Extended Fund Facility (EFF) is one of the facilities extended to Member Countries.
II. The Exogenous Shock Facility is designed to finance the reconstruction of European nations.

Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2019

47. Match the IBRD-related features in List I with their corresponding descriptions in List II.
List I: (Feature)
P. Catastrophic risk financing
Q. Concessional lending arm
R. Ownership and governance
S. Capital acquisition
List II: (Description)
1. Borrowing on international capital markets
2. International Development Association
3. Member states
4. Financial services and products offered by the Bank
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2009

48. Country Delta is experiencing a sudden but temporary drop in export revenues, creating a short-term external imbalance. The government requires immediate stabilization funds to bridge this gap until export levels normalize. Which specific IMF programme is explicitly designed for this exact scenario?
(A) Structural adjustment programme

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93. (D) Damodaran Committee
Enhancing the quality of interaction between banks and their customers is a critical regulatory objective. A specific committee was formed to suggest measures for improving customer services in the banking sector. These recommendations aimed to simplify banking procedures, increase transparency, and ensure that grievances are handled fairly and promptly, thereby building greater public trust and confidence in the banking system.

94. (C) Bimal Jalan panel
Entering the banking market requires passing a rigorous evaluation to ensure that the new institution will be stable and reliable. A specialized panel was tasked with scrutinizing applications for new bank licenses. This vetting process examines the background, financial capability, and business plans of applicants, ensuring that only qualified and sustainable entities are granted the privilege of operating in the country.

95. (A) Aditya Puri Committee
The transparent and efficient sharing of borrower data is essential for modern risk management in the banking sector. A dedicated committee focused on improving the dissemination of information related to credit. These guidelines encouraged the development of credit bureaus and standardized data-sharing practices, helping lenders make more informed decisions and reducing the overall level of risk in the national financial system.

96. (B) Cook Committee
Financial institutions must maintain a sufficient capital buffer to remain resilient against unexpected economic shocks. A specific committee was established to check and verify the capital adequacy of banks. This technical evaluation ensures that banks have enough equity to protect depositors and maintain systemic stability, providing a safeguard that is essential for long-term confidence in the national financial infrastructure.

97. (A) Abid Hussain Committee
Small-scale industries have unique financial requirements that often differ from larger corporate entities. A dedicated committee focused on the specific needs of smaller industries, recommending tailored credit facilities and supportive policies. These measures help bridge the funding gap for small manufacturers and service providers, ensuring they have the resources needed to grow, innovate, and contribute to the national development goals.

98. (B) A.C. Shah Committee
Reforming the non-banking financial sector is crucial for maintaining overall financial stability and protecting investors. A foundational committee was dedicated to Non-Banking Financial Companies (NBFC) reforms. Its recommendations focused on strengthening the regulatory framework, improving liquidity management, and ensuring better oversight of these entities, which play a vital role in providing credit to various segments of the domestic economy.

99. (D) Parthasarathi Shome Committee
Managing the tax implications of complex transactions requires a structured approach to prevent the artificial avoidance of tax liabilities. A specialized committee provided the framework for the implementation of the General Anti Avoidance Rule. This roadmap helps tax authorities distinguish between legitimate tax planning and transactions designed solely to evade taxes, ensuring a fairer and more transparent taxation environment for everyone.

100. (D) Suma Verma Committee
Providing an effective mechanism for resolving bank customer complaints is a key part of consumer protection. A specialized committee was tasked with revising and updating the Banking Ombudsman Scheme. These improvements were designed to make the dispute resolution process more accessible and responsive, ensuring that grievances are settled fairly and that the system keeps pace with modern banking and technological practices.

NODIA

CHAPTER 20

Major International Financial Institutions: Genesis, Objectives and Functions

Oct/Nov 2012

1. While the initial goal of the IMF was reconstructing the international payment system, which of the following is the most appropriate description of its central role today?
(A) Eradicating poverty through commercial-grade sovereign infrastructure loans.
(B) Serving as the primary bank for national central banks.
(C) Drafting international banking supervision standards for commercial banks.
(D) Management of balance of payments difficulties and international financial crises.

May/June 2009

2. A developing country lacks the expertise to adequately track its national economic statistics or formulate robust macroeconomic policies. It requests the IMF to send experts to train its finance ministry staff. This request falls directly under which major functional role of the IMF?
(A) Surveillance
(B) Structural adjustment programme
(C) Technical assistance and training
(D) Catastrophic risk financing

Oct/Nov 2021

3. How does the International Monetary Fund primarily source the funds that are made available to countries experiencing balance of payments problems?
(A) Through the direct issuance of sovereign bonds on international capital markets.
(B) Through concessional lending provided by the International Development Association.
(C) Through a quota-based pool of funds contributed by its member nations.
(D) Through the liquidation of catastrophic risk financing and weather derivatives.

May/June 2015

4. Which of the following statements correctly identifies the major functional roles of the IMF?
(A) Its major functional roles are limited entirely to short-term stabilisation and poverty reduction.
(B) Its major functional roles include commercial-grade lending for transportation and healthcare.
(C) Its roles cover surveillance, financial adjustment assistance, and technical training.
(D) Its major functional roles consist of developing global banking standards like the Basel Accord.

Oct/Nov 2010

5. Consider the following statements regarding the activities of the IMF:
I. The IMF gathers statistics and conducts analysis of its members' economies.
II. The IMF stipulates necessary conditions regarding the implementation of prescribed policies.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2020

6. Which of the following most appropriately distinguishes the structural adjustment programme from stand-by arrangements (SBA)?
(A) SBA is for medium-term adjustments, whereas the structural adjustment programme is for short-term temporary imbalances.
(B) SBA covers temporary imbalances, while structural adjustment addresses medium-term macro issues.
(C) SBA is exclusively used for exogenous

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shocks, whereas the structural adjustment programme is used for poverty reduction.
(D) SBA provides technical assistance and training, whereas the structural adjustment programme focuses strictly on surveillance.

Oct/Nov 2005

7. What is the core organizational definition of the International Monetary Fund (IMF) based on its primary activities?
(A) A global central bank that regulates domestic monetary policies and oversees international corporate trade.
(B) An organization that fosters global monetary cooperation, financial stability, and international trade facilitation.
(C) A multilateral agency providing commercial-grade financing for large-scale private sector infrastructure.
(D) An intergovernmental body established to manage foreign exchange reserves specifically for middle-income nations.

May/June 2013

8. Read the following assertion and reason and select the correct option.
Assertion (A): The IMF utilizes a quota system to establish a pool of funds.
Reason (R): Countries experiencing balance of payments problems can borrow money from this pool.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

9. The Ministry of Finance in Country Alpha refuses to alter its domestic policies, demanding unconditional funds from the IMF. The IMF denies the request, stating that funds are tied to the execution of prescribed policy changes. Which IMF operational principle is the institution enforcing?
(A) The restriction on concessional financing for sovereign states.
(B) The stipulation of necessary conditions regarding policy implementation.
(C) The transition to the Basel III banking supervision standards.
(D) The adherence to the more stringent host country prudential norms.

May/June 2017

10. Match the numerical data in List I with the corresponding IMF metric in List II.
List I: (Metric)
P. 1944
Q. 189
R. 29
S. 477
List II: (Context)
1. Member countries upon formal existence
2. Year of the Bretton Woods Conference
3. Current membership count of the IMF
4. Billion SDRs held by the fund as of 2016
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2022

11. Match the IMF Facility acronym in List I with its full expansion in List II.
List I: (Acronym)
P. CFF
Q. EFF
R. PRGF
S. SFF
List II: (Full Form)
1. Poverty Reduction and Growth Facility
2. Compensatory Financing Facility
3. Extended Fund Facility
4. Supplementary Financing Facility
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2018

12. Identify the incorrect statement regarding the foundational history and early metrics of the IMF.
(A) The IMF came into formal existence in the year 1945.
(B) The initial goal of the IMF was the reconstruction of the international payment system.
(C) By 1945, the IMF had accumulated SDR 477 billion to manage international financial

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crises.
(D) The IMF originally came into formal existence with 29 member countries.

Oct/Nov 2016

13. Nation X joins the IMF and is required to contribute a specific amount of funds to the organization's resource pool. Years later, when Nation X faces severe foreign exchange shortages, it approaches the IMF to borrow from this exact same pool. What systemic mechanism determines Nation X's required contribution and subsequent access to these collective funds?
(A) The Quota system
(B) The International Development Association framework
(C) The Basel Capital Accord
(D) The Large Exposure Framework

May/June 2014

14. Consider the following objectives of the IMF as stated in its Articles of Agreement:
I. Promoting exchange-rate stability.
II. Making resources available to member countries in financial difficulty.
III. Providing concessional lending specifically for domestic transportation projects.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2007

15. Which of the following is NOT one of the facilities recognized as being extended by the IMF to Member Countries?
(A) Supplementary Financing Facility (SFF)
(B) Stand-by Arrangement
(C) Exogenous Shock Facility
(D) Sovereign Infrastructure Facility

May/June 2025

16. Based on international financial records for the year 2016, what was the membership count of the International Monetary Fund (IMF)?
(A) 29 countries
(B) 132 countries
(C) 189 countries
(D) 194 countries

Oct/Nov 2019

17. Under what specific economic circumstance would the IMF deploy a structural adjustment programme rather than a stand-by arrangement?
(A) When a nation needs medium-term adjustment for fundamental macro imbalances.
(B) When a country experiences a brief, temporary internal imbalance in its budget.
(C) When a country needs immediate technical training for its various central bank staff.
(D) When a country requires a short-term stabilisation due to minor external trade deficits.

Oct/Nov 2011

18. Arrange the following historical milestones related to the IMF in the correct chronological sequence:
I. The IMF comes into formal existence with 29 member countries.
II. The Bretton Woods Conference takes place.
III. The fund reaches a pool of SDR 477 billion (about $668 billion).
(A) I, II, III
(B) II, I, III
(C) III, I, II
(D) II, III, I

May/June 2010

19. The IMF routinely reviews the economic and financial policies of Member Country Y, gathering data and analyzing its fiscal health to ensure it maintains exchange-rate stability. Which core IMF activity does this scenario illustrate?
(A) Extended Fund Facility execution
(B) Stand-by Arrangements initiation
(C) Project financing disbursement
(D) Surveillance of member economies

NODIA

May/June 2024

20. Consider the following statements about the IMF:
I. Headquartered in Washington, D.C.
II. Currently holds a membership of 189 countries.
III. Works to reduce poverty around the world.
IV. Formed primarily by the ideas of Harry Dexter White and John Maynard Keynes.
V. Acquires most of its capital by issuing bonds in 26 different currencies.

Which of the above statement(s) is/are correct?
(A) I, II, III, and V only
(B) I, II, III, and IV only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2020

21. Match the IMF functional categories in List I with their corresponding details in List II.
List I: (Category)
P. SBA
Q. Structural adjustment
R. Technical assistance
S. Surveillance
List II: (Description)
1. Short-term stabilisation for temporary imbalances
2. Advising and assisting in the matter of macroeconomic management
3. Gathering of statistics and analysis of members' economies
4. Medium-term adjustment for fundamental macro imbalances
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2015

22. Which of the following is NOT explicitly listed as an overarching goal of the International Monetary Fund?
(A) Fostering global monetary cooperation
(B) Regulating domestic real estate markets
(C) Promoting high employment and sustainable economic growth
(D) Reducing poverty around the world

Oct/Nov 2008

23. What was the approximate US Dollar equivalent of the SDR 477 billion held by the IMF as of 2016?
(A) $477 billion
(B) $668 billion
(C) $189 billion
(D) $29 billion

May/June 2006

24. What is the specific definition of the IMF's Stand-by arrangements (SBA)?
(A) A medium-term adjustment framework for correcting fundamental macroeconomic imbalances.
(B) A long-term facility targeting sustainable poverty reduction and national economic growth.
(C) An emergency assistance fund for nations devastated by wartime conflict or natural disasters.
(D) A short-term stabilisation programme for financing temporary internal and external imbalances.

Oct/Nov 2017

25. Read the following assertion and reason and select the correct option.
Assertion (A): The IMF works to improve the economies of its member countries exclusively by providing unconditional grant financing.
Reason (R): The IMF stipulates necessary conditions regarding the implementation of policies as prescribed by it.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

26. Which of the following statements accurately reflects the historical formation of the IMF?
(A) It began formal operations in 1945 with 189 original member countries signing the charter.
(B) It was established by an intergovernmental agreement between four European powers in 1930.
(C) It was primarily formed to act as a trustee for the German Government International Loan.
(D) It was formed in 1944 at Bretton Woods based on the ideas of Harry White and John Keynes.

Oct/Nov 2013

27. Identify the incorrect statement regarding the facilities extended by the IMF to its Member Countries.
(A) The IMF extends the International Development Concessional Facility (IDCF).
(B) The IMF extends the Extended Fund Facility

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85. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
A strong framework for internal audits and regulatory oversight is vital for the health of any banking system. A dedicated committee evaluated and provided recommendations for the banking inspection system. These guidelines help ensure that financial institutions remain compliant with rules and that any operational risks or weaknesses are identified through a structured and thorough supervisory process across the industry.

86. (A) I, II, III, and IV only
Banking oversight is composed of multiple layers, including credit assessment, systemic reforms, tax implementation, and inspection systems. Dedicated committees provide the specialized rules for each area, from evaluating working capital to modernizing the entire banking structure. While other panels might handle crisis resolution, these groups focus on the foundational and operational rules that ensure the long-term stability of the financial system.

87. (B) K.M. Chandrasekhar committee
Creating an attractive environment for international investors involves simplifying and rationalizing the rules for capital inflows. A specialized committee was tasked with reforming foreign investment norms to make the process more transparent and efficient. These recommendations helped reduce regulatory complexity, encouraging more sustainable foreign capital participation in the domestic market and supporting broader economic growth and stability across various sectors.

88. (D) I, II, III, IV, and V
The breadth of financial regulation is evident in panels that boost small business exports, restructure weak banks, reform non-banking entities, and investigate frauds. Additionally, addressing human resource challenges in public sector lenders ensures operational efficiency. Each of these committees provides targeted guidance, ensuring that every segment of the financial sector is well-managed, secure, and capable of meeting its development objectives.

89. (B) Narasimham Committee
Comprehensive structural changes are often necessary to modernize the financial system and align it with global best practices. A landmark committee spearheaded the reforms in the banking sector, providing recommendations that transformed the regulatory and operational landscape. These proposals focused on enhancing competition, improving capital standards, and creating a more efficient and resilient banking environment for the nation's future.

90. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The evolution of the alternative dispute resolution mechanism is driven by the need to effectively address consumer grievances. A dedicated committee was established to revise and update the Banking Ombudsman Scheme. These updates were necessary to ensure the framework remains relevant in a changing banking environment, providing customers with a transparent and responsive platform for resolving their disputes efficiently and fairly.

91. (B) Deepak Mohanty Committee
Reliable information systems are the backbone of effective central banking and financial supervision. A dedicated committee focused on the management of data and information within the Reserve Bank of India. This panel provided the strategic framework for improving data quality, accessibility, and analysis, ensuring that the regulatory authority has the necessary tools to monitor the economy and maintain overall financial stability.

92. (C) Bhandari Committee
Reviving financial institutions that serve the rural and agrarian population is a key developmental priority. A specialized committee provided the roadmap for the reconstruction of Regional Rural Banks. These recommendations focused on improving the financial health, governance, and operational efficiency of these institutions, ensuring they can continue to provide essential credit and banking services to the rural economy and population.

NODIA

May/June 2012

34. Which of the following is a correctly matched pair representing the components collectively known as the World Bank?
(A) IBRD and the International Monetary Fund
(B) IBRD and the Bank for International Settlements
(C) IBRD and the Basel Committee for Banking Supervision
(D) IBRD and the International Development Association

Oct/Nov 2014

35. A member country faces severe financial difficulty and requests the IMF's help. During the intervention, the IMF discovers the country's central bank lacks modern monetary policy frameworks. The IMF decides to send advisors to train the local staff. Which major functional role does this specific action fulfill?
(A) Technical assistance and training
(B) Extended Fund Facility execution
(C) Quota system administration
(D) Short-term stabilisation financing

May/June 2019

36. Read the following assertion and reason and select the correct option.
Assertion (A): The IBRD's member governments have the right to vote on its matters.
Reason (R): The Bank's member governments are shareholders who contribute paid-in capital.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2006

37. Which of the following pairs regarding the IMF is incorrectly matched?
(A) Emergency Assistance — Core functional role replacing surveillance
(B) Stand-by arrangements (SBA) — Short-term stabilisation
(C) Structural adjustment programme — Medium-term adjustment
(D) SBA — Financing temporary internal and external imbalances

May/June 2021

38. What was the original, explicit mission of the IBRD upon its establishment in 1944?
(A) Advancing worldwide economic development and eradicating poverty in all nations.
(B) Managing balance of payments difficulties through the national quota system.
(C) Creating a global meeting place for various international banking regulators.
(D) Financing the reconstruction of European nations devastated by World War II.

Oct/Nov 2010

39. Which of the following is NOT explicitly mentioned as a target area for IBRD commercial-grade or concessional financing?
(A) Transportation and infrastructure
(B) Environmental consciousness
(C) Access to food and potable water
(D) Private corporate retail expansion

May/June 2005

40. Country Epsilon suffers an unexpected macroeconomic disruption due to an external event completely outside its government's control. The country urgently needs specialized financial support to absorb this specific blow. Based on the listed IMF facilities, which one is named appropriately for this type of external, uncontrollable disruption?
(A) Poverty Reduction and Growth Facility (PRGF)
(B) Supplementary Financing Facility (SFF)
(C) Stand-by Arrangement
(D) Exogenous Shock Facility

Oct/Nov 2022

41. Nation Q is highly prone to severe earthquakes and wishes to secure a financial mechanism that pays out immediately if a major seismic event devastates its infrastructure. Nation Q approaches the IBRD for a solution. Which specific product offered by the IBRD matches this requirement?
(A) Poverty Reduction and Growth Facility
(B) Catastrophic risk financing
(C) Stand-by arrangements
(D) Concessional grants

May/June 2018

42. Consider the following mechanisms and facilities:

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(EFF).
(C) The IMF extends the Poverty Reduction and Growth Facility (PRGF).
(D) The IMF extends the Compensatory Financing Facility (CFF).

May/June 2022

28. Which of the following correctly pairs the individuals with their primary historical contribution to the international financial institutions?
(A) Harry Dexter White and John Maynard Keynes — Primary ideas leading to the formation of the IMF
(B) G10 Governors — Authors of the original Articles of Agreement for the IMF
(C) Bankhaus Herstatt — Designers of the IMF quota system
(D) John Maynard Keynes — Founder of the Bank for International Settlements

Oct/Nov 2023

29. Member Country Z is facing a severe financial difficulty preventing it from participating in orderly international trade. The IMF provides funds to Country Z but requires the government to implement specific fiscal deficit reduction policies. What is the overarching objective of this intervention as per the Articles of Agreement?
(A) To act as a neutral trustee for government international loans.
(B) Transition the country strictly toward floating exchange rates.
(C) To provide resources while ensuring orderly trade and payments.
(D) To finance commercial-grade infrastructure and potable water.

May/June 2023

30. Consider the following statements representing the functional roles and objectives of the IMF:
I. Ensure orderly international trade and payments.
II. Advise and assist in the macroeconomic management of its member countries.
III. Facilitate international trade and foster global monetary cooperation.
IV. Finance the reconstruction of European nations devastated by World War II.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2018

31. Read the following assertion and reason and select the correct option.
Assertion (A): The IMF extends various facilities like EFF, PRGF, and CFF to member countries.
Reason (R): These facilities are extended to achieve objectives such as promoting international monetary co-operation, trade, and sustainable economic growth.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2007

32. Read the following assertion and reason and select the correct option.
Assertion (A): The IBRD's mandate was eventually expanded to worldwide economic development and eradicating poverty.
Reason (R): The initial mission of financing the reconstruction of European nations devastated by World War II was its primary focus following its establishment in 1944.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

Oct/Nov 2025

33. Consider the following facilities extended by the IMF to its Member Countries:
I. Supplementary Financing Facility (SFF)
II. Poverty Reduction and Growth Facility (PRGF)
III. Compensatory Financing Facility (CFF)
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

(B) Stand-by arrangements (SBA)
(C) International Development Association Concessional Loan
(D) Bankhaus Herstatt Resolution Facility

Oct/Nov 2011

49. In the year 2011, how much capital did the IBRD report raising from bond issues?
(A) $26.7 billion USD
(B) $29 billion USD
(C) $668 billion USD
(D) $477 billion USD

May/June 2010

50. Identify the incorrect statement concerning the IBRD's origins and mission.
(A) It is headquartered in Washington, D.C., United States of America.
(B) It was established in 1944.
(C) It was originally intended to act as the trustee for the German Government International Loan.
(D) Its original mission was financing the reconstruction of European nations devastated by World War II.

Oct/Nov 2024

51. The sovereign state of Nation P, a middle-income developing country, seeks to upgrade its domestic healthcare facilities and improve sanitation. It applies for a commercial-grade financing package. Which specific international financial institution is structurally mandated to offer this loan to Nation P?
(A) International Development Association (IDA)
(B) Bank for International Settlements (BIS)
(C) Basel Committee for Banking Supervision (BCBS)
(D) International Bank for Reconstruction and Development (IBRD)

May/June 2017

52. Read the following assertion and reason and select the correct option.
Assertion (A): A structural adjustment programme is typically implemented for temporary internal imbalances.
Reason (R): The structural adjustment programme is designed for medium-term adjustment of macro imbalances of a more fundamental nature.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2005

53. A low-income member country has approached the IMF specifically seeking a facility that intertwines financial assistance with the dual goals of lowering extreme destitution rates and expanding economic output. Which IMF facility explicitly targets these two goals by its very name?
(A) Extended Fund Facility (EFF)
(B) Exogenous Shock Facility
(C) Poverty Reduction and Growth Facility (PRGF)
(D) Stand-by Arrangement

May/June 2020

54. Match the numerical figures from the IBRD's 2011 reporting in List I with their correct context in List II.
List I: (Figure)
P. 26
Q. 132
R. $29 billion
S. $26.7 billion
List II: (Context)
1. Number of projects that received lending commitments
2. Total lending commitments reported
3. Number of different currencies in which bond issues were made
4. Capital raised from bond issues
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2015

55. Consider the following statements regarding the World Bank:
I. The IBRD and the International Development Association are collectively known as the World Bank.
II. The IBRD and the International Development Association share the same

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May/June 2018

84. Banking regulators from multiple countries need a secure, established forum to discuss new capital adequacy requirements for global banks. They convene at an institution that has evolved into a global meeting place for such standards. Which institution is hosting these regulators?
(A) IBRD in Washington, D.C.
(B) IMF in Washington, D.C.
(C) BIS in Basel, Switzerland
(D) Gujarat International Finance Tec-City in India

Oct/Nov 2016

85. Match the historical years in List I with their corresponding financial events in List II.
List I: (Year)
P. 1974
Q. 1982
R. 1971–73
S. 1930
List II: (Event)
1. Young Loan floated
2. Resolution of the Latin American debt crisis
3. End of the Bretton Woods system
4. Collapse of Bankhaus Herstatt
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2014

86. Which of the following statements is correct regarding the establishment of the BIS?
(A) It was established by a single national decree by the Swiss government in 1930.
(B) It was established via an agreement between several nations including Germany and the UK.
(C) It was formed at the Bretton Woods Conference by Harry Dexter White in 1944.
(D) It was established as the primary concessional lending arm of the World Bank Group.

Oct/Nov 2007

87. On what date did the Reserve Bank of India (RBI) issue the specific instructions to Indian banks and AIFIs regarding dealing in financial products by their foreign branches/subsidiaries?
(A) 01.12.2022
(B) 17.05.1930
(C) 01.01.2023
(D) 31.03.2022

May/June 2025

88. Read the following assertion and reason and select the correct option.
Assertion (A): The BIS was originally intended to act as the trustee for the German Government International Loan.
Reason (R): This loan, known as the Young Loan, was floated in 1930 to facilitate reparations imposed on Germany by the Treaty of Versailles.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2019

89. Read the following assertion and reason and select the correct option.
Assertion (A): The G10 Governors created the Basel Committee for Banking Supervision (BCBS).
Reason (R): The transition to floating exchange rates and the collapse of Bankhaus Herstatt highlighted the need for improved banking supervision at an international level.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

90. What major macroeconomic shift between 1971 and 1973 precipitated a rise in financial stability issues, ultimately leading to the need for better banking supervision?
(A) The transition to floating exchange rates and the end of the Bretton Woods system.
(B) The replacement of the quota system with direct bond issuances.
(C) The transition from commercial-grade loans to concessional lending.
(D) The imposition of the Treaty of Versailles

NODIA

III. Basel II
IV. Basel III
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2013

63. On what exact date did the Bank for International Settlements (BIS) originally open its doors in Basel, Switzerland?
(A) 17 May 1930
(B) 1 December 2022
(C) 17 May 1944
(D) 1 December 1945

May/June 2015

64. What specific geographical and functional zone in India is explicitly designated as an International Financial Services Centre (IFSC)?
(A) Mumbai Bandra Kurla Complex (BKC)
(B) Delhi National Capital Region (NCR)
(C) Gujarat International Finance Tec-City (GIFT City)
(D) Hyderabad Information Technology and Engineering Consultancy City (HITEC City)

Oct/Nov 2012

65. Several national central banks wish to collaborate on monetary policy and need an independent institution to securely hold their collective reserve deposits while fostering financial cooperation. Which international institution is explicitly designated to serve as a "bank for central banks"?
(A) Bank for International Settlements
(B) International Development Association
(C) International Monetary Fund
(D) International Bank for Reconstruction and Development

May/June 2011

66. Identify the incorrect statement regarding the framework for operations in foreign jurisdictions and IFSCs.
(A) Dealings in such financial products require prior approval of the Reserve Bank in all circumstances.
(B) The framework applies to IFSCs in India including GIFT City.
(C) Branches in IFSCs may deal in structured financial products not permitted by the Reserve Bank in the domestic market.
(D) The financial products dealt with shall attract prudential norms such as capital adequacy and exposure norms.

Oct/Nov 2020

67. A developing nation needs funding for energy investments. The government is evaluating whether to seek commercial-grade financing or highly subsidized, concessional loans. If it opts for the concessional lending arm under the same leadership as the IBRD, which entity is it directly engaging with?
(A) Bankhaus Herstatt
(B) The Exogenous Shock Facility
(C) International Development Association
(D) Gujarat International Finance Tec-City

May/June 2022

68. Arrange the following BIS-related events in correct chronological order:
I. Creation of the Basel Committee for Banking Supervision (BCBS)
II. The opening of the BIS in Basel, Switzerland
III. The active involvement of BIS in the Latin American debt crisis
IV. The end of the Bretton Woods system (1971–73)
(A) II, IV, I, III
(B) II, I, IV, III
(C) IV, II, III, I
(D) I, II, IV, III

NODIA

Oct/Nov 2023

69. In 1974, a major internationally active bank abruptly ceases operations, causing cross-border settlement failures. Central bank governors realize that uncoordinated national regulations are inadequate for globalized banking. What specific committee was formed by the G10 Governors directly in response to such a systemic failure?
(A) The Basel Committee for Banking Supervision (BCBS)
(B) The International Monetary Fund Executive Board
(C) The World Bank Governance Council
(D) The Extended Fund Facility Steering Group

8. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Member nations contribute to a collective resource pool through a structured quota system. This mechanism establishes the necessary funds that the institution makes available to countries in financial distress. Because countries experiencing balance of payments problems can borrow from this specific pool to meet their obligations, the quota system directly enables the fund's primary lending and stabilization activities.

9. (B) The stipulation of necessary conditions regarding policy implementation.
The organization operates under the principle of conditionality when providing financial assistance to its member nations. It stipulates specific conditions regarding the implementation of prescribed policy changes to ensure that the borrowed funds are used effectively. This enforcement ensures that recipient countries address the root causes of their financial difficulties while maintaining the integrity of the institution's resources.

10. (A) P-2, Q-3, R-1, S-4
The institution's history and scale are defined by several key metrics. The Bretton Woods Conference took place in 1944, leading to the fund's formal existence with 29 initial member countries. By 2016, the membership count grew to 189 nations. At that time, the fund held 477 billion Special Drawing Rights, reflecting its significant capacity to manage global financial crises.

11. (A) P-2, Q-3, R-1, S-4
Various specialized facilities are extended to member countries to address specific economic needs. The Compensatory Financing Facility handles sudden export earnings shortfalls, while the Extended Fund Facility supports longer-term adjustments. The Poverty Reduction and Growth Facility targets development in low-income nations, and the Supplementary Financing Facility provides additional resources beyond standard limits to manage large-scale financial imbalances.

12. (C) By 1945, the IMF had accumulated SDR 477 billion to manage international financial crises.
While the institution came into formal existence in 1945 with 29 member countries, its initial mission focused on the reconstruction of the international payment system. The massive resource pool of 477 billion Special Drawing Rights was a much later development reported in 2016. At its inception, the fund was structured to stabilize exchange rates rather than hold such large reserves.

13. (A) The Quota system
The quota system serves as the fundamental mechanism for determining a country's financial relationship with the organization. It dictates the specific amount a nation must contribute to the collective resource pool. Furthermore, these quotas define the borrowing limits and access a member has to those funds when they face foreign exchange shortages or other severe balance of payments problems.

14. (A) I and II only
The Articles of Agreement outline several primary objectives, including the promotion of exchange-rate stability among member nations. The organization also aims to make resources available to countries experiencing financial difficulty to facilitate the correction of imbalances. However, providing concessional lending specifically for domestic transportation projects is not among its core stated objectives, which focus instead on monetary stability.

15. (D) Sovereign Infrastructure Facility
The institution provides several recognized facilities to assist member countries, such as the Supplementary Financing Facility and Stand-by Arrangements. It also utilizes the Exogenous Shock Facility to address sudden external disruptions. However, the Sovereign Infrastructure Facility is not an IMF-recognized programme. Loans for physical infrastructure projects are typically the mandate of development banks rather than the IMF.

16. (C) 189 countries
As of the financial reports and records for the year 2016, the organization reached a membership count of 189 countries. This widespread participation reflects its global role in fostering

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exclusively to managing catastrophic risk financing.
(C) A regulatory body under the Reserve Bank of India managing domestic banking IFSCs.
(D) A bank for central banks that fosters international monetary and financial cooperation.

Oct/Nov 2014

77. In 1982, several nations in a specific geographic region face severe difficulties in servicing their sovereign debts, threatening global financial stability. The central banks involved utilize their collaborative network to help resolve the crisis. Which crisis did the BIS actively help resolve during this year?
(A) The European Reconstruction Crisis
(B) The Bankhaus Herstatt settlement crisis
(C) The Bretton Woods collapse crisis
(D) The Latin American debt crisis

May/June 2019

78. Which of the following is an incorrectly matched pair regarding the timeline of events associated with international financial institutions?
(A) Floatation of the Young Loan — 1930
(B) Transition to floating exchange rates — 1971–73
(C) Opening of the BIS in Basel — 1930
(D) Collapse of Bankhaus Herstatt — 1982

Oct/Nov 2006

79. Consider the following historical roles and developments associated with the BIS:
I. Facilitating reparations from the Treaty of Versailles.
II. Acting as trustee for the German Government International Loan.
III. Serving as a bank for central banks.
IV. Fostering the creation of the BCBS after the collapse of Bankhaus Herstatt.
V. Being actively involved in the resolution of the 1982 Latin American debt crisis.
(A) I, II, IV, and V only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

May/June 2021

80. What was the direct catalyst that highlighted the need for improved banking supervision at an international level, prompting action by the G10 Governors?
(A) The resolution of the Latin American debt crisis in 1982.
(B) The expansion of the IBRD mandate to include poverty eradication.
(C) The successful floatation of the Young Loan in 1930.
(D) The collapse of internationally active banks like Bankhaus Herstatt.

NQDIA

Oct/Nov 2010

81. What was the primary rationale for putting the specific framework in place for foreign branches and IFSCs as outlined in the RBI instructions?
(A) To strictly mirror the domestic market permissions in all international branches to prevent capital flight.
(B) To transition all domestic commercial banking operations to GIFT City.
(C) To allow them to undertake activities which are not specifically permitted in the Indian domestic market.
(D) To enforce the Basel Concordat uniformly across all Indian domestic banks.

May/June 2005

82. Which of the following countries is NOT listed as a party to the 1930 intergovernmental agreement that established the BIS?
(A) India
(B) Italy
(C) Japan
(D) Belgium

Oct/Nov 2022

83. Read the following assertion and reason and select the correct option.
Assertion (A): Financial stability issues came to the fore internationally in the 1970s.
Reason (R): There was an end to the Bretton Woods system (1971–73) and a transition to floating exchange rates.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

leadership and staff.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2013

56. Consider the following statements regarding the functions or facilities of the IMF:

I. It extends Emergency Assistance to member countries.
II. It extends the Exogenous Shock Facility to member countries.
III. It requires member countries to adhere to the Basel Concordat.
IV. It provides financial assistance to facilitate adjustment.

Which of the above statement(s) is/are correct?

(A) I, II, and IV only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2021

57. Consider the following financial services and products offered by the IBRD:

I. Flexible loans
II. Grants
III. Financial derivatives
IV. Exogenous Shock Facilities

Which of the above statement(s) is/are correct?

(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2024

58. Country Omega has deep-rooted structural inefficiencies in its economy, leading to a fundamental macro imbalance that cannot be resolved quickly. The IMF steps in to provide a financing mechanism that requires changes over the medium term. What type of programme is the IMF implementing for Country Omega?

(A) Structural adjustment programme
(B) Short-term stabilisation SBA
(C) Emergency Assistance
(D) Compensatory Financing Facility (CFF)

Oct/Nov 2008

59. By what primary mechanism does the IBRD acquire most of its capital to fund its lending operations?

(A) Through mandatory SDR quota contributions from its member countries.
(B) By receiving direct concessional grants from the International Monetary Fund.
(C) By borrowing on international capital markets through bond issues.
(D) By collecting reparations mandated by the Treaty of Versailles.

May/June 2006

60. Which statement correctly describes the institutional structure of the IBRD?

(A) It is the sole institution comprising the World Bank Group.
(B) It is the first of five member institutions that compose the World Bank Group.
(C) It is headquartered in Basel, Switzerland.
(D) It was established in 1930 via an intergovernmental agreement.

Oct/Nov 2017

61. Match the historical entities/events in List I with their corresponding association to the BIS in List II.

List I: (Entity/Event)

P. Bankhaus Herstatt
Q. Treaty of Versailles
R. Young Loan
S. Basel, Switzerland

List II: (Association)

1. The 1930 German Government International Loan
2. Its collapse highlighted the need for improved banking supervision
3. Imposed reparations on Germany after World War I
4. The city where BIS opened its doors

(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

May/June 2008

62. Consider the following standards and frameworks developed as international standards through the BIS:

I. Basel Concordat
II. Basel Capital Accord

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reparations.

Oct/Nov 2011

91. Consider the following directives regarding AIFIs/banks in foreign jurisdictions:

I. The framework allows them to undertake activities not specifically permitted in the Indian domestic market.
II. Prior approval of the Reserve Bank is mandatory for all foreign derivative transactions.
III. The branches in IFSCs are subject to the same permissions as foreign branches.
IV. Financial products attract periodical valuation norms.
V. The parent bank must always adhere strictly to the home regulations even if host regulations are more stringent.

Which of the above statement(s) is/are correct?

(A) I, III, and IV only
(B) I, II, III, and IV only
(C) III, IV, and V only
(D) I, IV, and V only

May/June 2010

92. Consider the following prudential norms attracted by financial products dealt with by foreign branches, subsidiaries, and IFSCs:

I. Capital adequacy
II. Exposure norms (including Large Exposure Framework)
III. Periodical valuation
IV. Mandatory syndication with the IBRD

Which of the above statement(s) is/are correct?

(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Oct/Nov 2024

93. Consider the following statements regarding the applicability of RBI instructions:

I. The instructions apply to foreign branches and foreign subsidiaries of Indian banks operating outside India.
II. The instructions explicitly do not apply to International Financial Services Centres (IFSCs) located within India.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2017

94. Bank Omega, an Indian AIFI, operates a subsidiary in Frankfurt. The host regulator in Germany mandates a capital adequacy ratio of 10.5% for a specific structured financial product. The home regulator, RBI, mandates an 11.5% requirement for similar exposures. According to the December 1, 2022 instructions, which standard must the parent bank adhere to regarding prudential norms?

(A) The 10.5% standard, as host regulations automatically supersede home regulations for foreign subsidiaries.
(B) An average of 11.0%, to balance the conflicting home and host regulatory frameworks.
(C) The 11.5% standard, as the parent bank shall adhere to the more stringent among the host and home regulations.
(D) Neither, as the bank is exempt from capital adequacy requirements for products unapproved domestically.

Oct/Nov 2005

95. Which of the following is NOT listed among the specific prudential norms attracted by the financial products dealt with by foreign branches/subsidiaries as per the 2022 RBI circular?

(A) Maintenance of Statutory Liquidity Ratio (SLR) specifically for all structured derivatives.
(B) Maintenance of adequate Capital adequacy.
(C) Maintenance of Exposure norms (including Large Exposure Framework).
(D) Maintenance of Periodical valuation.

May/June 2020

96. Consider the following conditions for an AIFI branch in GIFT City to deal in a structured financial product not permitted domestically:

I. It must be subject to compliance with all applicable laws and regulations.
II. It requires case-by-case prior approval of the Reserve Bank.
III. It must comply with the conditions prescribed by the host regulator.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) I and III only

(C) II and III only
(D) I, II, and III

Oct/Nov 2015

97. Read the following assertion and reason and select the correct option.
Assertion (A): A parent bank must seek specific guidance from the Reserve Bank before proceeding with a new financial product.
Reason (R): The current norms of the Reserve Bank may not specify the prudential treatment of that particular financial product.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

98. Match the regulatory scenarios in List I with the mandated directives in List II.
List I: (Scenario)
P. Dealing in structured products not permitted domestically
Q. Application of exposure norms
R. Conflict in prudential norm strictness between regulators
S. Current RBI norms do not specify prudential treatment
List II: (Directive)
1. Includes adherence to the Large Exposure Framework
2. Parent bank/AIFI shall seek specific guidance from Reserve Bank
3. Allowed without prior RBI approval subject to compliance
4. Parent bank shall adhere to the more stringent regulation
(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-3, S-1

Oct/Nov 2021

99. When a foreign subsidiary of an Indian bank operates in a jurisdiction where the host regulator's prudential norms differ from the RBI's home regulations, what overarching principle dictates the parent bank's adherence?
(A) The parent bank must follow host regulator norms regardless of strictness.
(B) The parent bank must calculate the average requirements of both regulators.
(C) The parent bank must seek permission from the Basel Committee in Basel.
(D) The parent bank shall adhere to the more stringent among the host and home regulations.

May/June 2024

100. The GIFT City branch of Bank Sigma intends to trade a newly innovated complex derivative. After reviewing the RBI master directions and prudential frameworks, the compliance officer determines that the current norms of the Reserve Bank are completely silent on the prudential treatment of this specific derivative. What is the strictly mandated next step for the parent bank/AIFI before proceeding?
(A) Proceed immediately as long as the host regulator (IFSCA) permits it without notifying the RBI.
(B) Apply the prudential treatment of the closest resembling domestic product on their own discretion.
(C) Cease operations in the IFSC branch until the RBI unilaterally issues a general circular on the derivative.
(D) Seek specific guidance from the Reserve Bank regarding the prudential treatment of the financial product.

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ANSWERS

1. (D) Management of balance of payments difficulties and international financial crises.
The International Monetary Fund evolved from its original goal of reconstructing international payments to a broader mandate. Today, it primarily manages balance of payments difficulties and addresses international financial crises. By providing resources to member nations in distress, the organization ensures stability and order within the global trading system, helping countries maintain essential international trade and financial payments.

2. (C) Technical assistance and training
Technical assistance and training represent a core functional role where the institution provides expertise to member nations. This activity includes advising and assisting in macroeconomic management and the training of personnel at finance ministries or central banks. Such support helps developing countries strengthen their institutional capacity, enabling them to formulate robust economic policies and accurately track national financial statistics.

3. (C) Through a quota-based pool of funds contributed by its member nations.
The organization relies on a quota system to accumulate the resources needed for its operations. Member nations contribute funds based on their relative size in the world economy, forming a collective pool. This resource pool allows the fund to offer financial assistance to countries facing balance of payments problems, ensuring they have access to foreign exchange reserves.

4. (C) Their roles cover surveillance, financial adjustment assistance, and technical training.
Surveillance, financial adjustment assistance, and technical training are the three primary functional roles performed by the institution. Surveillance involves gathering statistics and analyzing member economies to promote stability. Financial adjustment assistance provides resources to help countries correct payment imbalances. Technical training enhances the administrative capacity of member nations to manage their own macroeconomic and financial policies effectively.

NODIA

5. (C) Both I and II
As part of its surveillance and adjustment activities, the organization gathers detailed statistics and conducts regular analyses of the economic health of its member countries. When providing financial support, it also stipulates necessary conditions that members must meet. These conditions require the implementation of prescribed policies to ensure the effective resolution of the nation's underlying economic problems.

6. (B) SBA covers temporary imbalances, while structural adjustment addresses medium-term macro issues.
The institution offers distinct facilities based on the nature of a country's economic difficulties. Stand-by arrangements are designed to provide short-term stabilisation for temporary internal or external imbalances. In contrast, structural adjustment programmes address more fundamental macroeconomic issues over a medium-term period. These programmes require deeper policy changes to resolve entrenched structural inefficiencies within a member nation's economy.

7. (B) An organization that fosters global monetary cooperation, financial stability, and international trade facilitation.
The primary purpose of the organization is to foster international monetary cooperation and ensure global financial stability. It facilitates the balanced growth of international trade by promoting exchange-rate stability and maintaining orderly payment systems. Additionally, the institution works to reduce global poverty and provides resources to member countries experiencing financial difficulties, supporting their efforts to achieve sustainable economic growth.

May/June 2016

70. Consider the following statements portraying the early history of the BIS:

I. It was established in 1930 by an intergovernmental agreement.

II. It opened its doors in Washington, D.C.

III. It was originally intended to facilitate WWI reparations.

Which of the above statement(s) is/are correct?

(A) I and II only

(B) I and III only

(C) II and III only

(D) I, II, and III

Oct/Nov 2009

71. Match the regulatory subjects in List I with their operational rules in List II.

List I: (Subject)

P. Parent bank

Q. Foreign branches

R. Prudential norms

S. Unspecified prudential treatment

List II: (Rule)

1. Shall adhere to more stringent among host and home regulations
2. Attracts capital adequacy, exposure norms, and periodical valuation
3. Shall seek specific guidance from Reserve Bank
4. Can deal in structured financial products without prior RBI approval

(A) P-2, Q-3, R-1, S-4

(B) P-1, Q-4, R-2, S-3

(C) P-3, Q-1, R-4, S-2

(D) P-4, Q-2, R-3, S-1

May/June 2023

72. Identify the incorrect statement regarding the original intent behind the establishment of the BIS.

(A) It was intended to facilitate reparations imposed on Germany by the Treaty of Versailles after World War I.

(B) It was initially established to resolve the Latin American debt crisis.

(C) It was intended to act as the trustee for the German Government International Loan.

(D) The German Government International Loan was also known as the Young Loan.

Oct/Nov 2018

73. Consider the following statements regarding international banking supervision:

I. The Basel Committee for Banking Supervision (BCBS) was created by the G10 Governors.

II. The BIS developed into a global meeting place for regulators and for developing international standards.

Which of the above statement(s) is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

May/June 2007

74. After World War I, victorious nations required a neutral trustee to manage the complex flow of reparations payments mandated by the Treaty of Versailles and to oversee a specific international loan floated in 1930. Which institution was created specifically to fulfill this trustee role?

(A) International Monetary Fund

(B) World Bank Group

(C) Bank for International Settlements

(D) Basel Committee for Banking Supervision

Oct/Nov 2025

75. Which of the following statements is correct regarding the operations of foreign branches/ subsidiaries of Indian banks/AIFIs?

(A) They are strictly prohibited from dealing in structured financial products that are not permitted in the Indian domestic market.

(B) They must obtain explicit, case-by-case approval from the RBI for every structured financial product they deal in.

(C) They are exempt from all host regulator conditions if they comply with home country RBI norms.

(D) They may deal in financial products unavailable domestically without prior RBI approval, provided specific conditions are met.

May/June 2012

76. What is the fundamental definition of the Bank for International Settlements (BIS)?

(A) An institution that offers commercial-grade financing to middle-income sovereign states.

(B) An arm of the World Bank dedicated

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monetary cooperation and financial stability. This number has grown significantly from the original 29 member countries that were present when the institution first came into formal existence in 1945.

17. (A) When a nation needs medium-term adjustment for fundamental macro imbalances.
The deployment of a structural adjustment programme is specifically reserved for countries facing deep-seated macroeconomic challenges. Unlike a stand-by arrangement, which provides short-term stabilization for temporary imbalances, the structural adjustment programme focuses on medium-term corrections. This approach is necessary when a nation must address fundamental macro imbalances that require long-lasting policy changes to restore sustainable financial health.

18. (B) II, I, III
The establishment of the fund began with the Bretton Woods Conference, where the initial ideas were formulated. Following this event, the institution came into formal existence with 29 original member countries. Much later in its history, as recorded in 2016, the organization reached a significant financial milestone by holding a pool of resources totaling 477 billion SDRs.

19. (D) Surveillance of member economies
Surveillance is a core activity where the institution monitors the economic and financial policies of its member nations. This process involve gathering comprehensive statistics and performing rigorous analysis of a country's fiscal health. By conducting these reviews, the organization helps ensure exchange-rate stability and identifies potential risks that could disrupt the orderly flow of international trade and payments.

20. (B) I, II, III, and IV only
Headquartered in Washington, D.C., the institution was established based on the frameworks proposed by Harry Dexter White and John Maynard Keynes. It currently serves 189 member countries and includes the reduction of global poverty among its goals. Most of its capital is sourced through a quota system rather than issuing bonds in various currencies on the open market.

21. (B) P-1, Q-4, R-2, S-3
Different functional categories address specific economic needs. Stand-by arrangements provide short-term stabilization for temporary imbalances, while structural adjustment focuses on medium-term macro issues. Technical assistance involves advising member nations on macroeconomic management. Finally, surveillance involves the gathering of statistics and analysis of member economies to maintain global financial stability and ensure the health of the international system.

22. (B) Regulating domestic real estate markets
The institution is dedicated to fostering global monetary cooperation, promoting sustainable economic growth, and facilitating international trade. It also works toward reducing poverty around the world to ensure broad-based stability. However, the regulation of domestic real estate markets is not part of its mandate, as its focus remains on macroeconomic policies, exchange rates, and international financial systems.

23. (B) $668 billion
Special Drawing Rights are used as the unit of account for the institution's financial resources. In 2016, the fund reported holding approximately 477 billion SDRs. When converted based on the exchange rates at that time, this amount was equivalent to roughly 668 billion US dollars. This massive pool of capital is utilized to support member countries facing financial crises.

24. (D) A short-term stabilisation programme for financing temporary internal and external imbalances.
Stand-by arrangements represent the most common type of lending programme provided by the institution for short-term needs. These arrangements are specifically designed to help member countries finance temporary internal and external imbalances. By providing immediate financial support, the programme allows nations to stabilize their economies without resorting to measures that would be destructive to national or international prosperity.

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that the parent bank must adhere to the more stringent of the two standards. Therefore, if the home regulator mandates a higher capital adequacy requirement than the host regulator, the bank must comply with the stricter home regulation.

95. (A) Maintenance of Statutory Liquidity Ratio (SLR) specifically for all structured derivatives.
The 2022 instructions require foreign branches to maintain capital adequacy, adhere to exposure norms, and perform periodical valuations for their financial products. These measures are designed to manage the specific risks associated with international trading. However, the circular does not mandate the maintenance of a Statutory Liquidity Ratio specifically for all structured derivatives handled by these overseas branches.

96. (B) I and III only
A branch in an IFSC, such as GIFT City, can deal in structured financial products not permitted domestically if it meets certain conditions. It must remain in compliance with all applicable laws and regulations and follow the specific conditions prescribed by the host regulator. In these cases, the branch is allowed to proceed without obtaining prior, case-by-case approval from the Reserve Bank.

97. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
If a parent bank intends to deal in a financial product whose prudential treatment is not specified in the current Reserve Bank norms, it must take proactive steps. The institution is required to seek specific guidance from the Reserve Bank before proceeding. This ensures that all new or complex financial products are subject to appropriate oversight and that potential risks are properly managed.

98. (C) P-3, Q-1, R-4, S-2
The regulatory framework provides clear directives for different operational scenarios. Structured products not permitted domestically can be traded abroad without prior approval if conditions are met. Exposure norms must include the Large Exposure Framework, and conflicts in regulations are resolved by following the more stringent rule. If norms are silent on a product, the bank must seek specific RBI guidance.

99. (D) The parent bank shall adhere to the more stringent among the host and home regulations.
In situations where a foreign subsidiary faces different prudential norms from home and host regulators, a primary principle of strictness applies. The parent bank is required to adhere to whichever regulation is more stringent. This ensures that the bank always maintains the highest level of financial safety and soundness, regardless of which jurisdiction provides the more lenient regulatory environment.

100. (D) Seek specific guidance from the Reserve Bank regarding the prudential treatment of the financial product.
When existing regulatory frameworks do not specify how a particular financial product should be treated for prudential purposes, the parent bank cannot act unilaterally. It must formally seek specific guidance from the Reserve Bank regarding the correct treatment. This step is mandatory for ensuring that new financial innovations are integrated into the bank's risk management system in a controlled manner.

NODIA

33. (D) I, II, and III
The institution offers several specialized facilities to support member nations with specific economic challenges. The Supplementary Financing Facility provides extra resources, the Poverty Reduction and Growth Facility supports low-income countries, and the Compensatory Financing Facility assists with export earnings shortfalls. Together, these facilities allow the organization to address a wide range of financial imbalances and development needs.

34. (D) IBRD and the International Development Association
The term World Bank specifically refers to the combination of two major international financial institutions: the International Bank for Reconstruction and Development and the International Development Association. While they are part of the larger World Bank Group, these two entities share the same leadership and staff and work together to provide loans and grants to developing nations.

35. (A) Technical assistance and training
When the institution provides training to local central bank staff or advisors to improve monetary policy frameworks, it is performing its technical assistance role. This function focuses on strengthening the administrative and policy-making capacity of member countries. By enhancing local expertise, the organization helps nations manage their own macroeconomic health and maintain stability within the global financial system.

36. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The International Bank for Reconstruction and Development is structured as a cooperative owned by its member governments. These governments act as shareholders and contribute paid-in capital to the institution. Because they provide the financial foundation for the bank's operations, these member governments hold the right to vote on its matters and participate in its governance.

37. (A) Emergency Assistance — Core functional role replacing surveillance
The core functional roles of the institution include surveillance, technical assistance, and providing financial adjustment assistance through various facilities. Stand-by arrangements are specifically used for short-term stabilisation of temporary imbalances, while structural adjustment addresses medium-term issues. Emergency assistance is a recognized facility, but it does not replace the fundamental surveillance role that monitors member economies.

38. (D) Financing the reconstruction of European nations devastated by World War II.
When it was founded in 1944 at the Bretton Woods Conference, the original and explicit mission of the International Bank for Reconstruction and Development was to finance the reconstruction of European nations. These countries had been devastated by the events of World War II and required significant capital to rebuild their infrastructure and restore their economic productivity to pre-war levels.

39. (D) Exogenous Shock Facility
The Exogenous Shock Facility is specifically designed to provide financial support to countries that experience sudden macroeconomic disruptions due to external events. These events are typically outside the control of the national government, such as natural disasters or global commodity price shifts. This facility helps nations absorb the economic blow and maintain stability during unexpected international crises.

40. (D) Private corporate retail expansion
The IBRD provides financing for projects that support sustainable development and poverty reduction in middle-income countries. This includes investments in transportation, infrastructure, environmental protection, and ensuring access to essential services like food and potable water. However, the organization does not focus on financing the retail expansion of private corporations, as its mandate targets sovereign and public development.

41. (B) Catastrophic risk financing
Catastrophic risk financing is a specialized financial product offered by the institution to help nations manage the impact of natural disasters.

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25. (D) Assertion (A) is false, but Reason (R) is true.
The institution does not provide unconditional grant financing to improve member economies. Instead, it operates on a system where financial assistance is tied to specific policy requirements. It stipulates necessary conditions regarding the implementation of prescribed policies, ensuring that member countries take the corrective actions needed to address their financial difficulties and maintain the stability of the global system.

26. (D) It was formed in 1944 at Bretton Woods based on the ideas of Harry White and John Keynes.
The institution was established during the Bretton Woods Conference in 1944. Its creation was primarily driven by the economic theories and ideas of Harry Dexter White and John Maynard Keynes. Formal operations began the following year, initially serving a much smaller group of countries than its current membership, with the aim of reconstructing the international payment system.

27. (A) The IMF extends the International Development Concessional Facility (IDCF).
Member countries have access to various specialized facilities, including the Extended Fund Facility, the Poverty Reduction and Growth Facility, and the Compensatory Financing Facility. These programmes are designed to address different types of economic imbalances and development needs. The International Development Concessional Facility is not a recognized facility extended by the institution for its financial assistance operations.

28. (A) Harry Dexter White and John Maynard Keynes — Primary ideas leading to the formation of the IMF
Harry Dexter White and John Maynard Keynes are the historical figures most responsible for the creation of the International Monetary Fund. Their primary ideas and proposals during the Bretton Woods Conference in 1944 laid the groundwork for the institution's Articles of Agreement. These foundational documents defined the fund's role in promoting exchange-rate stability and fostering global monetary cooperation.

29. (C) To provide resources while ensuring orderly trade and payments.
The institution provides financial resources to members in difficulty to ensure they can maintain orderly trade and payments. This intervention allows countries to correct maladjustments in their balance of payments without relying on measures that would harm domestic or international prosperity. By requiring specific policy changes, the fund ensures that the member nation returns to a stable economic path.

30. (A) I, II, and III only
The major functional roles and objectives of the institution include ensuring orderly international trade and payments while fostering global monetary cooperation. It also advises and assists member countries in their macroeconomic management through technical training. While these roles are central, the reconstruction of European nations after World War II was the specific historical mission of the IBRD, not the IMF.

31. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
To achieve its core objectives of promoting international monetary cooperation and sustainable growth, the institution extends several specialized facilities to its members. These include the Extended Fund Facility, the Poverty Reduction and Growth Facility, and the Compensatory Financing Facility. These tools are essential for providing the targeted financial assistance required to stabilize economies and facilitate balanced international trade.

NODIA

32. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The initial mission of the IBRD was to finance the reconstruction of European nations devastated by World War II following its establishment in 1944. Over time, its mandate was significantly expanded to focus on worldwide economic development and the eradication of poverty. These two missions are distinct historical phases of the organization's efforts to support global financial stability.

during World War II. It was not intended to act as the trustee for the German Government International Loan, as that specific role was the founding purpose of the Bank for International Settlements.

51. (D) International Bank for Reconstruction and Development (IBRD)
Middle-income developing countries seeking commercial-grade financing for large-scale public projects, such as healthcare and sanitation infrastructure, typically approach the International Bank for Reconstruction and Development. This institution is mandated to provide loans and financial advice to such nations. Its funding helps these countries improve public services and achieve sustainable economic growth through sovereign-level investments.

52. (D) Assertion (A) is false, but Reason (R) is true.
Structural adjustment programmes are specifically intended for medium-term adjustments of fundamental macroeconomic imbalances. They are not used for temporary internal imbalances, which are typically addressed through short-term stabilization tools like stand-by arrangements. Because structural issues require deep policy changes over time, these programmes provide a longer framework for a country to restore its economic health.

53. (C) Poverty Reduction and Growth Facility (PRGF)
The Poverty Reduction and Growth Facility is a specialized lending tool designed for low-income member countries. As its name suggests, it integrates financial assistance with the specific goals of reducing extreme poverty and fostering sustainable economic growth. This facility ensures that the institution's support directly targets the most vulnerable nations while helping them build more robust economies.

54. (C) P-3, Q-1, R-4, S-2
In 2011, the institution reported several key figures regarding its global operations. It provided lending commitments for 132 different projects, totaling 26.7 billion dollars in commitments. To fund these activities, the bank raised 29 billion dollars through bond issues. These financial operations were conducted using 26 different currencies, demonstrating the bank's extensive reach in international capital markets.

55. (C) Both I and II
The term World Bank refers to the collective entity formed by the International Bank for Reconstruction and Development and the International Development Association. These two institutions are fundamentally linked, as they share the same leadership and staff members. This combined structure allows them to provide a unified approach to international development, offering both commercial-grade and concessional financing.

56. (A) I, II, and IV only
The institution's functional roles include providing financial assistance through various tools like the Exogenous Shock Facility and Emergency Assistance. These programmes are designed to facilitate economic adjustment and maintain stability. While the organization assists with many international standards, the Basel Concordat is a framework developed by the Basel Committee for Banking Supervision, not a mandatory IMF requirement.

57. (A) I, II, and III only
The institution offers a variety of financial products to support its member nations, including flexible loans and concessional grants. It also utilizes financial derivatives to help countries manage economic risks. While the organization provides many tools, the Exogenous Shock Facility is specifically a programme offered by the International Monetary Fund rather than a product of the IBRD.

58. (A) Structural adjustment programme
When a country faces fundamental macroeconomic imbalances caused by structural inefficiencies, the institution implements a structural adjustment programme. This type of intervention is designed for medium-term changes rather than immediate, short-term stabilization. It provides the necessary financing and policy framework for the nation to address deep-rooted economic issues and transition toward a more sustainable and efficient system.

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59. (C) By borrowing on international capital markets through bond issues.
Unlike other international organizations that rely solely on member quotas, this institution acquires the majority of its capital from international capital markets. It achieves this by issuing bonds to private and institutional investors. This market-based approach allows the bank to raise substantial funds, which are then used to provide commercial-grade loans to middle-income developing countries.

60. (B) It is the first of five member institutions that compose the World Bank Group.
The International Bank for Reconstruction and Development is the first and oldest of the five institutions that constitute the World Bank Group. It was established at the Bretton Woods Conference in 1944. Its unique role within the group is to provide loans and financial services to middle-income developing countries to support their long-term economic development goals.

61. (A) P-2, Q-3, R-1, S-4
The history of the BIS is linked to several significant events and entities. It opened in Basel, Switzerland, and was originally established to facilitate reparations mandated by the Treaty of Versailles. This included acting as the trustee for the 1930 Young Loan. Later, the collapse of Bankhaus Herstatt in 1974 highlighted the need for the improved banking supervision it provides.

62. (D) I, II, III, and IV
The institution has been instrumental in developing international standards for the global banking industry. These include the Basel Concordat and the various iterations of the Basel Capital Accord, such as Basel II and Basel III. These frameworks provide a consistent set of rules for banking supervision and capital adequacy, helping to maintain financial stability across different national jurisdictions.

63. (A) 17 May 1930
The Bank for International Settlements officially opened its doors on 17 May 1930. Located in Basel, Switzerland, it was established by an intergovernmental agreement between several major nations. Since its inception, the institution has served as a central hub for cooperation between national central banks and has evolved into a key player in global financial regulation.

64. (C) Gujarat International Finance Tec-City (GIFT City)
Gujarat International Finance Tec-City, commonly known as GIFT City, is the specific area in India designated as an International Financial Services Centre. It provides a specialized regulatory environment that allows financial institutions to undertake activities not typically permitted in the domestic market. This centre aims to attract international financial services and foster global economic integration within India.

65. (A) Bank for International Settlements
The Bank for International Settlements serves as a "bank for central banks" by providing a platform for monetary and financial cooperation. It holds reserve deposits for national central banks and offers a secure environment for them to collaborate on policy. This unique role makes it a central institution for maintaining stability and fostering communication among the world's monetary authorities.

66. (A) Dealings in such financial products require prior approval of the Reserve Bank in all circumstances.
Indian banks operating in foreign jurisdictions or IFSCs are subject to a specific regulatory framework. While dealings in some financial products require prior approval, branches in IFSCs may trade in structured products that are not permitted in the domestic market without such approval, provided they meet certain conditions. These products must still attract prudential norms like capital adequacy.

67. (C) International Development Association
The International Development Association is the concessional lending arm of the World Bank. It shares the same leadership and staff as the IBRD but focuses on providing highly subsidized loans and grants to the world's poorest nations. This entity allows developing countries with limited financial resources to fund essential energy, health, and infrastructure projects at a lower cost.

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68. (A) II, IV, I, III
The timeline of the institution began with its opening in 1930. Following the end of the Bretton Woods system in the early 1970s, the G10 Governors created the Basel Committee for Banking Supervision in 1974. Later, in 1982, the organization played a crucial role in resolving the Latin American debt crisis, demonstrating its ongoing importance in managing global financial stability.

69. (A) The Basel Committee for Banking Supervision (BCBS)
The Basel Committee for Banking Supervision was established in response to major disruptions in the international banking system, such as the collapse of Bankhaus Herstatt in 1974. G10 central bank governors recognized that national regulations were insufficient for banks operating across borders. This committee was created to improve the quality of banking supervision and set global regulatory standards.

70. (B) I and III only
Established in 1930 through an intergovernmental agreement, the organization was originally designed to manage the flow of World War I reparations. It was based in Basel, Switzerland, rather than Washington, D.C. Its early mission focused on the financial obligations imposed by the Treaty of Versailles and serving as a trustee for international loans issued during that period.

71. (B) P-1, Q-4, R-2, S-3
Parent banks must adhere to specific rules when their foreign branches deal in structured financial products. If a product is not permitted domestically, it may still be traded abroad without prior RBI approval if compliance is maintained. However, the parent bank must follow the more stringent regulation when host and home rules conflict, and seek guidance if prudential treatment is unspecified.

72. (B) It was initially established to resolve the Latin American debt crisis.
The institution was originally established to facilitate the reparations imposed on Germany after World War I and to act as a trustee for the 1930 Young Loan. These objectives were defined at its inception in 1930. The resolution of the Latin American debt crisis occurred much later, in 1982, and was not part of the institution's founding intent.

73. (C) Both I and II
International banking supervision was significantly strengthened by the creation of the Basel Committee for Banking Supervision by the G10 Governors. Over time, the institution in Basel developed into a global meeting place where regulators from around the world convene. This forum is essential for developing the international standards that govern the safety and soundness of the global financial system.

74. (C) Bank for International Settlements
The Bank for International Settlements was created to serve as a neutral trustee for the complex financial arrangements following World War I. This included managing the reparations payments required by the Treaty of Versailles. Additionally, it oversaw the German Government International Loan, also known as the Young Loan, which was floated in 1930 to stabilize the international financial situation.

75. (D) They may deal in financial products unavailable domestically without prior RBI approval, provided specific conditions are met.
Foreign branches and subsidiaries of Indian banks are permitted to deal in structured financial products that are unavailable in the domestic market. They do not require prior, case-by-case approval from the Reserve Bank for these activities, provided they comply with specific conditions. This framework allows these institutions to compete effectively in international markets while remaining subject to essential prudential norms.

76. (D) A bank for central banks that fosters international monetary and financial cooperation.
Known as the bank for central banks, this institution is an international organization that fosters monetary and financial cooperation. It serves as a forum for central bank governors and regulators to discuss global economic issues. By providing banking services to these authorities, it helps maintain stability and promotes a more resilient international financial system through collaborative standards.

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This mechanism provides immediate funding if a specific event, such as a major earthquake, occurs and damages national infrastructure. By securing this type of financing, countries can ensure they have the resources needed for rapid recovery and reconstruction.

42. (A) I, II, III, and V only
The institution utilizes several programmes to support member nations, including the Extended Fund Facility, Stand-by Arrangements, and structural adjustment programmes. It also employs the Compensatory Financing Facility to address specific financial gaps. However, providing commercial-grade financing for sovereign state infrastructure is primarily the role of the International Bank for Reconstruction and Development, not the IMF.

43. (A) I and II only
After completing its initial task of rebuilding Europe, the organization expanded its mandate to advance economic development worldwide. This new focus included the goal of eradicating poverty in developing nations. Despite this shift toward broader development goals, the institution continues to provide loans to sovereign states, specifically targeting middle-income developing countries that require capital for public projects.

44. (D) An international financial institution that offers loans to middle income developing countries.
The International Bank for Reconstruction and Development is defined as an international financial institution that provides loans to middle-income developing countries. It is the first of the five institutions that make up the World Bank Group. Its primary purpose is to support sustainable development through commercial-grade or concessional financing for infrastructure and other essential public services.

45. (D) I, II, III, IV, and V
As a member-owned organization, the institution is governed by the states that contribute to its capital. These member governments are shareholders who have the right to vote on the bank's matters. While it has its own executive leadership and staff, the institution remains accountable to its members, who provide the paid-in capital necessary for its lending operations.

46. (A) Only I
The Extended Fund Facility is a recognized programme used by the institution to provide assistance for longer-term economic adjustments. Conversely, the Exogenous Shock Facility was created to help countries deal with sudden external economic disruptions rather than the reconstruction of Europe. The mission of European reconstruction was the specific original mandate of the International Bank for Reconstruction and Development.

47. (D) P-4, Q-2, R-3, S-1
The institution offers various financial products, including catastrophic risk financing and flexible loans. It acquires most of its capital by borrowing on international capital markets through bond issues. While owned and governed by member states, it also includes the International Development Association as its concessional lending arm. Together, these features allow the bank to provide comprehensive development support.

48. (B) Stand-by arrangements (SBA)
Stand-by arrangements are the primary tool used by the institution to address short-term external imbalances caused by temporary economic shifts. When a country faces a brief drop in export revenues, this facility provides the stabilization funds needed to bridge the gap. This support prevents the nation from experiencing a more severe financial crisis while its trade levels normalize.

49. (B) $29 billion USD
In its 2011 financial reporting, the International Bank for Reconstruction and Development stated that it had raised a significant amount of capital to fund its operations. Specifically, the bank reported acquiring 29 billion US dollars through bond issues. These funds, raised on international capital markets, were used to support its various lending commitments and development projects worldwide.

50. (C) It was originally intended to act as the trustee for the German Government International Loan.
The institution was established in 1944 and is headquartered in Washington, D.C. Its original mission was to finance the reconstruction of European nations that were devastated

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86. (B) It was established via an agreement between several nations including Germany and the UK.
The establishment of the institution was not the result of a single national decree or the Bretton Woods Conference. Instead, it was formed through an intergovernmental agreement between several major nations, including the United Kingdom, Germany, and Japan. This agreement, signed in 1930, created a unique international organization dedicated to fostering cooperation among central banks and managing global financial obligations.

87. (A) 01.12.2022
The Reserve Bank of India issued its instructions regarding the dealing of financial products by foreign branches and subsidiaries on December 1, 2022. These directions provide the current regulatory framework for Indian banks and AIFIs operating in international jurisdictions. They outline the conditions under which these entities can engage in activities that may not be permitted within the domestic market.

88. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The institution was founded with the specific purpose of acting as the trustee for the German Government International Loan, commonly known as the Young Loan. This loan was issued in 1930 to help manage the reparations payments that Germany was required to make under the Treaty of Versailles. This role was central to the institution's original mission of stabilizing international finance.

89. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The G10 Governors created the Basel Committee for Banking Supervision to address the growing complexities of the international financial system. The transition to floating exchange rates and the high-profile collapse of Bankhaus Herstatt clearly demonstrated that existing oversight was inadequate. These events underscored the urgent need for a coordinated, international approach to banking supervision to prevent future systemic failures.

90. (A) The transition to floating exchange rates and the end of the Bretton Woods system.
Between 1971 and 1973, the international financial landscape was fundamentally altered by the end of the Bretton Woods system. This shift led to the abandonment of fixed exchange rates in favor of floating exchange rates. This transition increased the risk and volatility in global markets, making it necessary for regulators to develop more sophisticated tools for maintaining financial stability.

91. (A) I, III, and IV only
The regulatory framework for banks in foreign jurisdictions allows them to engage in activities not permitted domestically, such as trading certain derivatives. These branches, including those in IFSCs, must still adhere to periodical valuation norms for their financial products. However, they do not require prior RBI approval for all foreign transactions as long as they comply with the established conditions.

92. (A) I, II, and III only
Financial products traded by foreign branches and IFSCs are subject to several key prudential norms. These include maintaining adequate capital adequacy and adhering to exposure norms, such as the Large Exposure Framework. Additionally, these products must undergo periodical valuation to ensure their risks are accurately recorded. These requirements help protect the stability of the parent bank and the broader system.

93. (A) Only I
The instructions issued by the Reserve Bank apply to the foreign branches and subsidiaries of Indian banks that operate outside of India. These rules also explicitly cover branches located within International Financial Services Centres in India, such as GIFT City. This ensures that all international operations of Indian financial institutions are governed by a consistent set of regulatory and prudential standards.

94. (C) The 11.5% standard, as the parent bank shall adhere to the more stringent among the host and home regulations.
When a parent bank operates a subsidiary in a foreign jurisdiction, it must navigate both home and host regulations. The overarching rule is

NODIA

77. (D) The Latin American debt crisis
During 1982, the institution was actively involved in helping resolve the Latin American debt crisis. This crisis occurred when several countries in that region faced severe difficulties in servicing their sovereign debts. The organization's collaborative network provided a platform for central banks to coordinate their efforts, preventing the regional crisis from destabilizing the entire global financial system.

78. (D) Collapse of Bankhaus Herstatt — 1982
While the Young Loan was floated in 1930 and the transition to floating exchange rates occurred between 1971 and 1973, the collapse of Bankhaus Herstatt actually took place in 1974. This specific failure was a major catalyst for the creation of the Basel Committee for Banking Supervision. The year 1982 is instead associated with the resolution of the Latin American debt crisis.

79. (D) I, II, III, IV, and V
Since its founding, the organization has performed several vital roles, including facilitating Treaty of Versailles reparations and acting as a trustee for the Young Loan. It serves as a bank for central banks and fostered the creation of the BCBS. Furthermore, it played a key role in resolving the 1982 Latin American debt crisis, illustrating its broad impact on financial stability.

80. (D) The collapse of internationally active banks like Bankhaus Herstatt.
The collapse of internationally active banks, such as Bankhaus Herstatt in 1974, served as the direct catalyst for improving global banking supervision. These failures exposed the risks inherent in cross-border settlements and uncoordinated national regulations. In response, the G10 Governors took action to create a more robust framework for international oversight through the Basel Committee for Banking Supervision.

81. (C) To allow them to undertake activities which are not specifically permitted in the Indian domestic market.
The regulatory framework for foreign branches and IFSCs was established to provide Indian banks with greater flexibility in international markets. It explicitly allows these branches to undertake financial activities and deal in products that are not permitted in the domestic Indian market. This approach enables them to operate effectively in global financial hubs like GIFT City while maintaining oversight.

82. (A) India
The intergovernmental agreement that established the institution in 1930 involved several nations, including Germany, the United Kingdom, Italy, Belgium, and Japan. India was not a party to this original agreement. The institution was created by these European and Asian powers specifically to handle the financial aftermath of World War I and facilitate international cooperation among their central banks.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The end of the Bretton Woods system between 1971 and 1973 led to a transition from fixed to floating exchange rates. This major macroeconomic shift brought financial stability issues to the forefront of the international agenda. As exchange rates became more volatile, the need for improved banking supervision and international cooperation became increasingly apparent to regulators worldwide.

84. (C) BIS in Basel, Switzerland
The institution in Basel, Switzerland, has evolved into the primary global meeting place for banking regulators. It provides a forum where authorities from different countries can discuss and develop international standards, such as capital adequacy requirements. These meetings are essential for ensuring that banks worldwide operate under consistent rules that promote the overall safety of the global financial system.

85. (D) P-4, Q-2, R-3, S-1
Key financial events are associated with specific historical years. The Young Loan was floated in 1930, while the Bretton Woods system ended between 1971 and 1973. The collapse of Bankhaus Herstatt followed in 1974, highlighting supervision needs. Later, in 1982, the international community focused on the resolution of the Latin American debt crisis, where the BIS played a significant role.

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CHAPTER 21

A Note on Crypto Currencies & Central Bank Digital Currency

Oct/Nov 2010

1. The creation of the first cryptocurrency, bitcoin, involved using the blockchain process. To whom is the genesis of bitcoin attributed?
(A) John B Taylor
(B) George Orwell
(C) Prof. Milton Friedman
(D) Satoshi Nakamoto

May/June 2021

2. Which of the following statements correctly describes the potential impact of private cross-border flows in cryptocurrencies on a domestic macroeconomic landscape?
(A) They strengthen the integrity of the capital account regime by enforcing strict adherence to KYC and international AML regulations.
(B) They would automatically increase the value of the domestic currency and strengthen the monetary policy framework.
(C) As non-reserve currencies, they may negatively impact foreign exchange reserves and undermine regulatory control over capital flows.
(D) They guarantee a stable accretion of foreign exchange reserves by eliminating volatility in cross-border trade payments.

Oct/Nov 2016

3. How are "stable coins" fundamentally defined in the context of the cryptocurrency ecosystem?
(A) They are central bank digital currencies pegged directly to the price of gold and issued in physical forms.
(B) They are sovereign digital assets backed by a consortium of advanced economy commercial banks.
(C) They are cryptocurrencies that are less volatile, often pegged to official currencies, and promoted globally.
(D) They are native tokens used exclusively to reward work done in the blockchain for mining activities.

May/June 2005

4. Several arguments are often advanced regarding the policy of banning cryptocurrencies. Identify the incorrect statement regarding these arguments.
(A) Advanced economies are not resorting to bans, so other nations should replicate their practices without considering domestic implications.
(B) Banning is argued to be difficult because cryptocurrencies can be acquired and traded in an anonymous manner.
(C) Banning cryptocurrencies would completely eradicate any wealth loss since no investors have acquired them to date.
(D) Proponents of cryptos argue that banning them is analogous to banning technologies like biotechnology.

Oct/Nov 2022

5. If private currencies priced in convertible currencies like the US Dollar or Euro are widely permitted, how would it primarily impact a domestic banking system?
(A) The banking system would immediately achieve international status and dominate global strategic control.
(B) The banking system's ability to mobilise deposits in local currency and create credit would be diminished.
(C) The banking system's credit creation capacity would become completely immune to monetary policy fluctuations.
(D) The banking system would replace all its existing non-monetary liabilities with digital assets automatically.

NODIA

List I: Asset/Currency Type
P. Fiat Currency
Q. Gold
R. Cryptocurrency
S. CBDC
List II: Characteristics
1. A commodity with intrinsic value.
2. Legal tender pegged to a country's fiat currency in digital form.
3. Has no underlying cash flows, intrinsic value, or issuer.
4. Issued by a sovereign entity and acts as a standard of deferred value.
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2022

45. Consider the following statements regarding the economic impact of cryptocurrencies:
I. Cross-border inflows in terms of dollars for cryptocurrencies may eventually introduce possible dollarisation in the economy.
II. If private currencies are permitted, the banking system's ability to mobilise deposits in Rupees would be completely unaffected.
III. Credit creation in convertible currencies would be impervious to domestic monetary policy.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III

May/June 2018

46. What is a primary reason why the classification of cryptocurrencies as "digital assets" is often considered flawed?
(A) They cannot be traded on any digital exchanges or platforms globally.
(B) They have no underlying use, unlike functional software, being essentially electronic codes.
(C) They are exclusively physical entities that are temporarily recorded on a digital ledger.
(D) They are fully backed by sovereign gold reserves making them physical assets rather than digital.

Oct/Nov 2006

47. Consider the following statements regarding the design of Central Bank Digital Currencies (CBDCs):
I. Preserving a two-tier system allows the central bank to keep its financial system footprint small while retaining the neutrality of central bank money.
II. CBDCs can be designed as an open platform using APIs to prevent the emergence of data silos and accumulation of market power.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2025

48. Match the functional roles of the RBI (List I) with their corresponding impacts/descriptions (List II).
List I: Functional roles of the RBI
P. Monopoly of note issue
Q. Banker to Government
R. Managing foreign exchange reserves
S. Monetary policy formulation
List II: Impacts/Descriptions
1. Ensures credit flows in intended directions without causing inflation.
2. Advises on the feasible quantum and cost of borrowing.
3. Secures monetary stability and avoids inflationary pressures caused by government.
4. Reduces volatility to ensure stability in foreign trade operations.
(A) P-3, Q-2, R-4, S-1
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

Oct/Nov 2019

49. Identify the incorrect pair regarding concepts associated with cryptocurrencies and blockchain technology.
(A) Fiat money - An internet-based transaction using distributed ledger technology without central authority.
(B) Ether - The native currency utilized specifically for the Ethereum blockchain network.
(C) Mining - Rewarding work done in

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global strategic control.
(B) It is a stable coin pegged to multiple corporate liabilities and traded on unregulated global exchanges.
(C) It is the digital form of a country's fiat currency, issued and regulated by a nation's monetary authority or central bank.
(D) It is a non-reserve virtual currency designed to bypass established intermediation and control arrangements.

Oct/Nov 2024

13. Identify the correct statement regarding the valuation of cryptocurrencies within the formal financial system.
(A) Since valuation is based on beliefs rather than underlying value, it is likely to have a destabilizing effect on monetary stability.
(B) Their valuation is strictly anchored by the specific foreign exchange reserves maintained by the respective national central banks.
(C) Their valuation is derived precisely from the expected rate of inflation and actual gross domestic income.
(D) They represent an inherent claim on a company's future cash flows, providing a stable foundation for valuation.

May/June 2017

14. Cryptocurrencies are often discussed as financial instruments. Why do they fail to qualify as traditional financial instruments like bonds or equity shares?
(A) They are anchored tightly by national monetary policies and heavily monitored by financial regulators.
(B) They provide direct ownership rights to physical commodities such as gold or real estate.
(C) They lack an issuer, do not mobilize risk capital, have no intrinsic value, and do not generate underlying cash flows.
(D) They are exclusively used for settling current transactions at a future date, imparting a standard of deferred value.

Oct/Nov 2005

15. Which of the following is NOT a characteristic of cryptocurrency transactions?
(A) They are internet-based transactions using distributed ledger technology.
(B) They are borderless and global in nature.
(C) Neither the identity of counter parties nor the purpose of initiating transactions are typically known.
(D) They are authenticated centrally by a designated global central bank.

May/June 2020

16. In the context of distributed ledger technology (DLT), how is a new transaction block permanently incorporated into the system?
(A) It is authenticated by a consensus mechanism and appended to the existing chain of transaction blocks.
(B) It is manually recorded by a central authority after verifying the legal identities of the counterparties involved.
(C) It is encrypted by the issuing authority and stored exclusively on a centralized server managed by the government.
(D) It is approved by the International Monetary Fund before being appended to the global blockchain network.

Oct/Nov 2015

17. The design of Central Bank Digital Currencies (CBDCs) incorporates various technological and economic considerations. Which of the following statements is incorrect?
(A) CBDCs exist entirely separately from the underlying economic transactions to prevent financial inclusion.
(B) An account-based CBDC rooted in an efficient digital identity scheme is considered a promising design.
(C) Open platforms for CBDCs build on technical standards such as APIs to grant control of data to users.
(D) CBDCs can be designed to delegate most operational tasks and consumer-facing activities to commercial banks.

May/June 2013

18. The total market capitalisation of all cryptocurrencies experienced massive fluctuations over a few years. What was the peak total market capitalisation reached in November 2021?
(A) $2.9 trillion
(B) $289 billion
(C) $1.98 trillion
(D) $20 billion

NODIA

May/June 2018

6. Currency issued by central banks serves several fundamental economic purposes. These functions include all of the following EXCEPT:
(A) Acting as a medium of exchange.
(B) Acting as a zero-coupon perpetual gambling contract.
(C) Acting as a measure of value.
(D) Acting as a standard of deferred payments.

Oct/Nov 2006

7. Which of the following best defines the primary objective of the Reserve Bank of India (RBI) as stated in its governing framework?
(A) To maximize the profitability of commercial banks and ensure credit flows exclusively to the industrial sector.
(B) To regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India.
(C) To act as a purveyor of credit for speculative activities and facilitate unhindered capital account convertibility.
(D) To issue decentralized digital currencies and manage the total market capitalisation of crypto exchanges.

May/June 2025

8. The major sources of money supply (M3) emanate from discharging the functional roles of a central bank. Identify the correct statement regarding its components.
(A) M3 is calculated by entirely excluding the net foreign exchange assets of the central bank from the consolidated banking sector liabilities.
(B) M3 is derived as Central Bank's net credit to Government + Banks credit to commercial sector + net foreign exchange assets of Central Bank + Government's currency liabilities - Banking sector net non-monetary liabilities.
(C) Banking sector net non-monetary liabilities are added as a core asset to the other components to derive the total national monetary stock (M3).
(D) M3 includes the total market capitalisation of all circulating decentralized cryptocurrencies within the economy as a measure of digital liquidity.

Oct/Nov 2019

9. Various arguments highlight the distinction between cryptocurrencies and legal tender. Which of the following statements about cryptocurrencies is incorrect?
(A) They lack an issuer, unlike fiat currencies which are usually issued by a trusted entity like the sovereign.
(B) They can be effectively regulated by country-specific regulators because they operate within defined national borders.
(C) They do not possess any intrinsic value, nor are they a debt instrument or a commodity like gold.
(D) They are borderless in the sense that they span beyond the frontiers of a country and are global in nature.

May/June 2009

10. Which specific policy initiative was undertaken by the Ministry of Finance, Government of India, regarding the taxation of cryptocurrency transactions?
(A) Complete ban on all cross-border financial transactions using fiat currency.
(B) Issuance of sovereign gold bonds to replace all physical currencies.
(C) Imposition of a 30 per cent tax on all crypto transactions.
(D) Subsidizing mining activities for non-fungible tokens.

Oct/Nov 2011

11. Central Bank Digital Currencies (CBDCs) enhance the central bank's traditional roles in the payment system by ensuring all of the following EXCEPT:
(A) The finality of payments.
(B) Providing liquidity and acting as the lender of last resort.
(C) That central bank money is "neutral", provided with a commitment to competitive fairness.
(D) The accumulation of market power arising from the exclusive use of data by a single commercial entity.

May/June 2010

12. Which of the following accurately defines a Central Bank Digital Currency (CBDC)?
(A) It is an anonymous cryptographic asset issued by private corporate entities for

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transactions.

(B) They are confined to the narrow domain of a few agencies administering the technological platform over the internet.

(C) They are highly regulated by the Bank for International Settlements to prevent their use in speculative activities.

(D) They operate strictly within the physical borders of a specific country, completely restricted from global access.

May/June 2015

26. What is the traditional definition of fiat money as a medium of exchange?

(A) It is a peer-to-peer transaction protocol utilizing distributed ledger technology that operates independently of any central authority.

(B) It is a digital asset with intrinsic value comparable to historical works of art or aesthetic paintings.

(C) It is a decentralized cryptographic token whose value is driven by speculative market sentiment and fluctuating public beliefs.

(D) It is government-issued currency, such as bank notes and coins, which is officially recognized as legal tender.

Oct/Nov 2012

27. The major functional roles of the Reserve Bank of India (RBI) emerge from its core mandate. All of the following are major functional roles EXCEPT:

(A) Promotion of private decentralized finance protocols.

(B) Banker to Government.

(C) Regulation and Supervision of Financial System.

(D) Monopoly of note issue.

May/June 2011

28. The Reserve Bank of India announced the introduction of the Central Bank Digital Currency (CBDC). On which date was the wholesale version of CBDC launched on a pilot basis?

(A) November 1, 2022

(B) February 1, 2020

(C) December 1, 2022

(D) February 9, 2022

Oct/Nov 2020

29. The demand function for money ensures that monetary expansion aligns with specific macroeconomic variables. Identify the incorrect statement regarding this concept.

(A) Monetary expansion in the economy should be in line with the growth of GDP and related variables.

(B) Inflation rate as a determinant of money stock is used to take note of the substitution possibilities among financial and physical assets.

(C) The central bank creates excess monetary expansion specifically to promote speculative activities and cause inflationary conditions.

(D) Interest rates represent substitution possibilities among various types of financial assets with varying levels of liquidity.

May/June 2022

30. In the design of Central Bank Digital Currencies (CBDCs), what is the primary rationale for preserving a two-tier system?

(A) It allows commercial banks to monopolize note issue while the central bank focuses on marketing consumer products.

(B) It prevents the use of digital identity schemes and keeps all domestic transactions entirely anonymous.

(C) It transfers the responsibility of maintaining the national foreign exchange reserves entirely to private payment providers.

(D) The central bank ensures sound money and security, while the private sector innovates and handles consumer-facing activities.

Oct/Nov 2023

31. Arrange the following developments related to Central Bank Digital Currencies (CBDC) in India in the correct chronological order.

I. Launch of the retail version of CBDC on a pilot basis.

II. Announcement in the budget regarding the introduction of CBDC.

III. Launch of the wholesale version of CBDC on a pilot basis.

(A) II, I, III

(B) II, III, I

(C) III, II, I

(D) I, III, II

NODIA

May/June 2016

32. Identify the incorrect pair regarding financial instruments and their intended core functions.
(A) Equity share - Enables a business to mobilize risk capital for long-term growth.
(B) Cryptocurrency - Enables users to manage risk through guaranteed sovereign backing.
(C) Mutual fund - Enables retail investors to diversify their portfolio.
(D) Bond - Enables a company or Government to borrow money from the public markets.

Oct/Nov 2009

33. What is a significant consequence of allowing cryptocurrencies into the formal financial system according to macroeconomic analysis?
(A) It would automatically eliminate the national budgetary gap and ensure the complete cessation of deficit financing by the Government.
(B) It would bypass established intermediation and control arrangements like KYC regimes, potentially facilitating illegal transactions.
(C) It would stabilize fluctuating price levels and directly assist fixed income earners.
(D) It would enhance the central bank's ability to act as the sole custodian of the monetary process.

May/June 2023

34. Consider the following statements regarding the volatility and valuation of cryptocurrencies:
I. Since the valuation of cryptocurrencies is largely based on beliefs rather than underlying value, it does not have any destabilising effect on a country's monetary stability.
II. Historical data shows that cryptocurrencies display a high degree of volatility, functioning very much like a speculative or gambling contract.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2018

35. Match the historical timeline (List I) with the total market capitalisation of all cryptocurrencies (List II).
List I: Timeline
P. February 2017
Q. February 2020
R. November 2021
S. February 09, 2022
List II: Market Capitalisation
1. $2.9 trillion
2. $289 billion
3. $1.98 trillion
4. $20 billion
(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-3, R-4, S-2
(C) P-2, Q-4, R-3, S-1
(D) P-3, Q-1, R-2, S-4

May/June 2007

36. Consider the following statements comparing cryptocurrencies to innovative financial instruments:
I. Cryptocurrencies are akin to zero-coupon perpetual bonds because they pay no interest and never pay back the principal.
II. Unlike equity shares that mobilize risk capital, cryptocurrencies lack any precise underlying role in finance.
III. Strong anecdotal evidence proves that businesses predominantly use bitcoins as a reliable currency rather than an investment asset.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Oct/Nov 2025

37. Which of the following best describes the financial characteristics of a cryptocurrency like bitcoin, considering it pays no interest and never pays back a principal?
(A) A speculative or gambling contract akin to a zero-coupon perpetual.
(B) A commodity with historical and aesthetic scarcity value.
(C) A highly secure debt instrument with guaranteed cash flows.
(D) An equity share that enables a business to mobilize risk capital.

May/June 2012

38. Match the elements of CBDC design (List I) with their roles (List II).
List I: CBDC Design Element

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P. Central Bank
Q. Commercial Banks
R. Account-based design
S. Application Programming Interfaces (APIs)

List II: Role/Function

1. Meets challenges raised by the volume of personal data collected.
2. Operate consumer-facing activities and operational tasks.
3. Grant control of data to users and prevent data silos.
4. Operates the core of the system ensuring sound money and overall security.

(A) P-4, Q-2, R-1, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-2, Q-4, R-3, S-1
(D) P-3, Q-1, R-4, S-2

Oct/Nov 2014

39. Consider the following statements regarding the financial nature of cryptocurrencies:

I. Currency always has an issuer, usually a trusted entity like the sovereign, whereas cryptocurrencies do not have an issuer.
II. Historically, currency has always been either a commodity with intrinsic value or a debt instrument, both attributes that cryptocurrencies lack.

Which of the above statement(s) is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2019

40. Match the individuals/entities (List I) with their associated concepts (List II).

List I: Individuals/Entities

P. Prof. Milton Friedman
Q. John B Taylor
R. Satoshi Nakamoto
S. BIS

List II: Associated Concepts

1. Genesis of bitcoin
2. Design choices for CBDCs
3. Demand function for money determined by permanent income
4. Policy interest rate as an effective monetary transmission channel

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-1, R-3, S-4

Oct/Nov 2010

41. Consider the following statements regarding Central Bank Digital Currencies (CBDCs):

I. A CBDC is considered a legal tender that can be used to exchange goods and services, just like physical fiat money.
II. CBDCs allow direct settlement on the central bank's balance sheet, entirely eliminating the need for intermediary credit.
III. A CBDC is pegged to the value of a country's fiat currency and preserves the core features of finality, liquidity, and integrity.

Which of the above statement(s) is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2021

42. Which of the following is considered a primary measure for a country like India to maintain financial stability and integrity against the risks of private cryptocurrencies?

(A) To formally adopt bitcoin as a parallel legal tender alongside the Rupee.
(B) To strictly regulate cryptocurrencies by placing them under the direct supervision of the IMF and World Bank.
(C) To ban cryptocurrency to prevent the undermining of financial integrity and the weakening of the banking system.
(D) To allow domestic banks to issue their own algorithmic stable coins to compete with global tech companies.

Oct/Nov 2016

43. Identify the correct pair regarding cryptocurrency market statistics as presented for February 2022.

(A) Bitcoin's share of total global market capitalisation - 61%
(B) Top five cryptocurrencies' share of market capitalisation - 71%
(C) Total number of distinct cryptocurrencies in circulation - 458
(D) Total number of active crypto exchanges and trading platforms - 17,436

May/June 2005

44. Match the nature of the asset/currency (List I) with its characteristic (List II).

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Oct/Nov 2005

55. Identify the correct pair regarding the RBI's CBDC pilot launches.
(A) Wholesale version of CBDC - 1st November 2022
(B) Retail version of CBDC - 1st November 2022
(C) Wholesale version of CBDC - 1st December 2022
(D) Retail version of CBDC - 9th February 2022

May/June 2020

56. In the context of Central Bank Digital Currencies (CBDCs), what is considered a promising design approach to meet the challenges of personal data and illicit activities?
(A) An account-based CBDC rooted in an efficient digital identity scheme.
(B) A completely decentralized system without any digital identity scheme.
(C) A physical token system linked directly to global equity markets.
(D) A private stable coin pegged to the US Dollar managed by international tech firms.

Oct/Nov 2015

57. Consider the following statements regarding monetary policy transmission channels:
I. Prof. Milton Friedman specified the demand function for money as determined by permanent income and wealth variables.
II. John B Taylor advocated a monetary policy rule that stipulates how central banks should change nominal policy interest rates in response to divergences of actual inflation.
III. Monetary expansion should intentionally exceed the growth of GDP to permanently ensure that highly fluctuating price levels benefit fixed income earners.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2013

58. Match the components of the money supply formula (List I) with their nature in the M3 derivation (List II).
List I: Components of M3
P. RBI's net credit to Government
Q. Net foreign exchange assets of RBI
R. Banking sector net non-monetary liabilities
S. Banks credit to commercial sector
List II: Nature in M3 Derivation
1. Deducted from other components as it does not contribute to money stock.
2. Emanates from the functional role of extending credit to industry and trade.
3. Originates from the central bank's role in financing the budgetary gap.
4. Originates from managing the external sector and foreign trade requirements.
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-3, R-4, S-1

Oct/Nov 2021

59. Consider the following statements regarding blockchain technology:
I. A block in a blockchain is authenticated by an agreed consensus mechanism before being added to the previous chain of blocks.
II. Linking every block to the previous block makes double spending entirely impossible without any mathematical effort.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2024

60. Match the regulatory/technological concepts (List I) with their implications (List II).
List I: Concepts
P. AML and CFT rules
Q. 30 per cent tax
R. Multi-CBDC (mCBDC)
S. FATF's 'Travel Rule'
List II: Implications
1. An international standard difficult to ensure in anonymous crypto transactions.
2. A policy initiative undertaken by the Government of India on crypto transactions.
3. Measures to ensure illegal transactions are kept at bay in the banking system.
4. An arrangement that offers potential for improving cross-border payments.
(A) P-3, Q-2, R-4, S-1
(B) P-2, Q-1, R-3, S-4
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-4, R-2, S-3

NODIA

the blockchain system using native cryptographic tokens.
(D) Bitcoin - The native coin of the Bitcoin blockchain.

May/June 2009

50. Match the terminology (List I) with its corresponding attribute in the crypto ecosystem (List II).
List I: Terminology
P. Stable coins
Q. Smart codes/electronic codes
R. Double spending
S. DLT
List II: Attribute/Risk
1. The foundational technology that creates a decentralized virtual record.
2. A critical flaw addressed by linking each block to the previous chain.
3. Forms the basis of "digital assets" despite having no practical use.
4. Cryptocurrencies that are less volatile but pose risks if assets and liabilities mismatch.
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-1, Q-2, R-4, S-3
(D) P-2, Q-1, R-3, S-4

Oct/Nov 2011

51. Consider the following statements regarding the regulation of cryptocurrencies:
I. Cryptocurrencies are global products whose defining characteristic is that they are outside official control.
II. The Financial Stability Institute of the BIS identifies difficulties in regulating cryptos, such as ensuring FATF's 'Travel Rule'.
III. In the event of a system collapse or mis-selling, domestic regulators possess absolute authority and access to the ledger to provide redressal to investors.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

May/June 2010

52. Arrange the following figures representing the total market capitalisation of all cryptocurrencies in the correct chronological order as they occurred.
I. Exploded to reach a peak of $2.9 trillion.
II. Total market capitalisation was only $20 billion.
III. Market capitalisation stands at $1.98 trillion.
IV. Market capitalisation went up to $289 billion.
(A) II, IV, I, III
(B) II, I, IV, III
(C) IV, II, I, III
(D) I, II, III, IV

Oct/Nov 2024

53. Match the cryptocurrency terminologies (List I) with their correct descriptions (List II).
List I: Cryptocurrency Terminology
P. Decentralized Finance (DeFi)
Q. Blockchain
R. Non-fungible tokens (NFTs)
S. Consensus mechanism
List II: Description
1. An agreed process that authenticates a set of new transactions.
2. A distributed ledger process linking blocks of transactions to prevent double spending.
3. Cryptographic products often associated with the cryptocurrency ecosystem.
4. An alternative financial regime operating without traditional intermediaries.
(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-3, R-2, S-4

May/June 2017

54. Consider the following statements regarding the regulation of cryptocurrencies:
I. Regulating cryptocurrencies is considered highly effective because all Peer-to-Peer (P2P) transactions inherently involve regulated entities subject to AML laws.
II. If cryptocurrencies are banned, most investors who are law-abiding would likely desist from investing, leaving only few elements to carry out illegal activities.
Which of the above statement(s) is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

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Oct/Nov 2021

19. Identify the correct statement regarding proposed multi-CBDC (mCBDC) arrangements.
(A) An mCBDC system eliminates the need for any digital payment technologies by reverting to physical fiat settlements across borders.
(B) mCBDC arrangements are explicitly designed to promote currency substitution, ensuring a foreign CBDC replaces the domestic currency.
(C) An mCBDC system prevents central banks from retaining their core attribute of neutrality in the payment system.
(D) An mCBDC system hosting multiple CBDCs jointly offers the greatest potential for improving cross-border payments.

May/June 2024

20. Proponents argue that cryptocurrencies can serve as a store of value. Why is this claim often analyzed as a myth?
(A) Any true store of value must be either tangible currencies, financial assets, or commodities with intrinsic value, none of which apply to cryptos.
(B) Cryptocurrencies are universally accepted as legal tender by all advanced economies.
(C) Cryptocurrencies guarantee a fixed rate of interest identical to perpetual government bonds.
(D) Cryptocurrencies have historical and aesthetic scarcity value comparable to fine paintings and sculptures.

Oct/Nov 2008

21. Which of the following is NOT a reason used to support the argument for banning cryptocurrencies to maintain financial stability?
(A) Cryptocurrencies by injecting liquidity into the system pose problems in the conduct of monetary policy.
(B) Cryptocurrencies have a de-stabilising effect on monetary and fiscal stability as their valuation is based solely on beliefs.
(C) Cryptocurrencies perfectly align with the AML/CFT regimes and seamlessly integrate with KYC norms.
(D) The absence of any centralized database on cryptocurrencies makes the implementation of a standard regulatory framework difficult.

May/June 2006

22. Which of the following economists emphasized the role of policy interest rate as an effective monetary transmission channel and advocated a specific monetary policy rule?
(A) Prof. Milton Friedman
(B) John B Taylor
(C) Satoshi Nakamoto
(D) Shri Rabi Ray

Oct/Nov 2017

23. In the evolutionary process of central banking, why is a central bank's monopoly of note issue considered critical?
(A) It diminishes the central bank's ability to act as a banker to the commercial sector and limits credit creation.
(B) It allows the central bank to directly finance all speculative activities in the domestic financial markets.
(C) It ensures that the central bank can issue decentralized cryptocurrencies without requiring legal tender status.
(D) Placing this function in the hands of the Government is beset with adverse implications causing possible inflationary pressures.

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May/June 2008

24. The regulation of cryptocurrencies presents numerous challenges. Identify the incorrect statement regarding their regulation.
(A) The international nature of crypto transactions requires technological solutions to ensure FATF's 'Travel Rule'.
(B) Regulating cryptocurrencies is complex as they are neither traditional currencies, financial assets, nor real assets.
(C) In a case of mis-selling, a domestic regulator would typically have no access to the ledger or any reliable audit trail.
(D) Peer-to-peer (P2P) crypto transactions inherently involve regulated entities subject to strict AML-CFT regulations.

Oct/Nov 2013

25. Which of the following is a correct statement regarding the nature of cryptocurrency transactions?
(A) They are explicitly designed to maintain transparency regarding the identity of counter parties and the purpose of

Oct/Nov 2008

61. Consider the following statements regarding the growth of cryptocurrencies:

I. Bitcoin started more than a decade back in 2008.
II. Total market capitalisation was approximately $20 billion in February 2017.
III. Market capitalisation reached a peak of $2.9 trillion in November 2021.
IV. Bitcoin accounts for a significant share, approximately 42%, of the total market capitalisation as of early 2022.
V. The top five cryptocurrencies account for almost 95% of the market capitalisation as of early 2022.

Which of the above statement(s) is/are correct?
(A) I, II, III, and IV only
(B) I, II, IV, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

May/June 2006

62. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The Government of India undertook an initiative by imposing a 30 per cent tax on all crypto transactions.
Reason (R): The imposition of this tax legally classifies cryptocurrencies as official legal tender and validates them as a direct substitute for fiat currency.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2017

63. Consider the following statements regarding the impact of cryptocurrencies on macroeconomic policies:

I. Cryptocurrencies bypass established intermediation and control arrangements such as KYC and AML regimes.
II. Valuations based on beliefs rather than underlying value can have a destabilizing effect on a country's monetary stability.
III. If cryptocurrencies are adopted widely, the banking system's ability to mobilize deposits in domestic currency diminishes.
IV. Stable coins pegged to official currencies automatically dampen all financial risks because assets and liabilities always perfectly match.

Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

May/June 2008

64. If a large number of clients undertake massive conversions of domestic currency deposits into dollar-pegged cryptocurrencies, what is a primary macroeconomic consequence for the domestic banking system?
(A) Credit creation in convertible currencies would become entirely subservient to the central bank's inflation targets.
(B) The banking system would experience a surge in domestic liquidity, enhancing monetary policy transmission.
(C) The banking system's ability to mobilise deposits in local currency and create credit would be diminished.
(D) The central bank's foreign exchange reserves would instantly double.

Oct/Nov 2013

65. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Cryptocurrencies do not conform to the historical understanding of a currency.
Reason (R): Cryptocurrencies do not have an issuer, are not an instrument of debt, and do not possess any intrinsic value.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

66. What is a fundamental operational difficulty identified in regulating cryptocurrencies such as bitcoin?

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(A) They are global products outside official control, making it difficult to address mis-selling due to lack of ledger access.
(B) They generate excessive corporate taxation revenue that the current fiscal system is not equipped to process or monitor.
(C) They are pegged directly to the local currency, creating a conflict of interest.
(D) They operate exclusively within a centralized domestic server controlled by the Government.

Oct/Nov 2012

67. Consider the following statements on the nature of crypto transactions:
I. They are internet-based transactions utilizing distributed ledger technology (DLT).
II. A newly authenticated transaction block is added to the previous chain, making double spending difficult.
III. Transactions are often anonymous, with neither the identity of counter parties nor the purpose of the transaction being known.
IV. The technological platform is administered globally by an inter-governmental body to ensure regulatory compliance.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I and III only
(C) II, III, and IV only
(D) I, II, III, and IV

May/June 2011

68. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): CBDCs are often designed as part of a two-tier system involving both the central bank and the private sector.
Reason (R): Central banks are fundamentally better equipped than commercial banks at managing consumer-facing activities and most daily operational tasks.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2020

69. In assessing the demand function for money to ensure appropriate monetary expansion, what mechanism is identified as an effective monetary transmission channel according to Taylor's principles?
(A) Policy interest rate regulation.
(B) Monopoly of note issue.
(C) Permanent income wealth variables.
(D) Direct deficit financing.

May/June 2022

70. Consider the following statements regarding the practical issues of regulating cryptocurrencies:
I. They are difficult to regulate by country-specific regulators because they are global and outside official control.
II. Peer-to-peer transactions often do not involve any regulated entity subject to AML-CFT regulations.
III. Authorities generally have seamless access to the ledger to direct regulatory action against cryptocurrency managers.
IV. Implementing a regulatory framework is challenged by the absence of any centralized database.
V. Regulation could be seen as legitimizing an asset that some argue acts fundamentally as a Ponzi scheme.
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2023

71. Considering the risks to financial stability and the integrity of the currency system, which of the following is often proposed as a choice regarding the policy toward cryptocurrencies?
(A) Banning cryptocurrency is seen as a way to prevent the undermining of the currency system.
(B) Integrating bitcoin directly into the M3 money supply formula.
(C) Outsourcing the monetary policy entirely to decentralized finance (DeFi) networks.
(D) Allowing unregulated peer-to-peer crypto transactions for all domestic trade settlements.

NODIA

May/June 2016

72. Consider the following statements contrasting private cryptocurrencies with CBDCs:

I. Cryptocurrencies lack an issuer and have no intrinsic value, whereas CBDCs are backed by the central bank.

II. The comparison between a CBDC and foreign bank notes circulating in the black market is a perfect equivalent since both are digital.

III. CBDCs can facilitate the objective of financial inclusion, whereas cryptos often serve as speculative gambling contracts.

IV. Robust legal tender provisions promoting the use of the national currency would support the success of CBDCs.

Which of the above statement(s) is/are correct?

(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

Oct/Nov 2009

73. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): The influx of cross-border crypto transactions can lead to a possible dollarisation of a domestic economy.

Reason (R): Cryptocurrencies are often linked to the dollar and can bypass established regulatory frameworks.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2023

74. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).

Assertion (A): If private cryptocurrencies priced in convertible currencies are permitted, the banking system's ability to mobilise deposits in local currency would be diminished.

Reason (R): Credit creation in convertible currencies would become highly responsive and seamlessly integrated with the domestic monetary policy.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2018

75. What is a fundamental historical characteristic used to counter the claim that cryptocurrencies are a standard store of value?

(A) Cryptocurrencies provide a guaranteed fixed interest rate that is significantly higher than that of standard zero-coupon bonds.
(B) Cryptocurrencies offer historical and aesthetic scarcity value equal to physical art.
(C) Cryptocurrencies are universally backed by international institutions as a replacement for gold.
(D) Historically, currency has always been either a commodity with intrinsic value or a debt instrument issued by a specific entity.

May/June 2007

76. Consider the following statements regarding the arguments concerning the banning of cryptocurrencies:

I. Advanced economies (AEs) are not universally resorting to bans, which is sometimes used as an argument against banning in other jurisdictions.

II. Banning is effective because cryptocurrencies are traded exclusively through highly regulated domestic banking channels.

III. Critics argue that banning cryptocurrencies could stunt the absorption of blockchain technology.

IV. Banning in one country would mean absolute wealth loss for all global investors as they cannot be provided with any reasonable exit mechanism.

Which of the above statement(s) is/are correct?

(A) I and III only
(B) II and IV only
(C) I, II, and III only
(D) I, III, and IV only

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Oct/Nov 2025

77. If a private cryptocurrency pays no interest, never pays back a principal, and lacks an issuer, how should it be categorized based on financial analysis?
(A) As an equity share that facilitates capital mobilization.
(B) As a digital asset with substantial underlying use in core banking software.
(C) As a sovereign debt instrument backed by the central bank.
(D) As a speculative or gambling contract akin to a zero-coupon perpetual.

May/June 2012

78. Consider the following statements regarding why cryptocurrencies are often distinguished from traditional currencies or assets:
I. They do not have an issuer like a sovereign entity.
II. They are not an instrument of debt.
III. They possess historical and aesthetic scarcity value similar to physical gold.
IV. They are electronic codes without underlying practical use as an asset.
V. They do not function as a credible instrument for settlement of current transactions at a future date.
Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) I, II, III, and IV only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2014

79. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): CBDCs can address the imperative of preventing data silos in the digital economy.
Reason (R): Open platforms for CBDCs build on technical standards like APIs to grant control of data to users, inducing a virtuous circle of innovation.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

NODIA

May/June 2019

80. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Cryptocurrency can be efficiently regulated using only traditional capital account regulations.
Reason (R): Cryptocurrency payments often take place outside the ambit of standard capital account regulations and bypass established intermediation arrangements.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2010

81. Proponents argue that blockchain technology cannot exist without cryptocurrencies. Which of the following statements correctly evaluates this claim?
(A) Blockchain technology cannot function without native cryptocurrencies for mining.
(B) Blockchain technology was exclusively invented by central banks to manage fiat money.
(C) Creating native cryptocurrencies is just one way of implementing a blockchain; the technology has many other uses that do not involve virtual currency.
(D) Banning cryptocurrencies automatically destroys all servers running distributed ledger technology globally.

May/June 2021

82. Consider the following statements regarding the derivation of Money Supply (M3):
I. Central Bank's net credit to Government is a core component.
II. Banks credit to commercial sector is a core component.
III. Net foreign exchange assets of Central Bank is a core component.
IV. Government's currency liabilities is a core component.
V. Banking sector net non-monetary liabilities are added to the other components.
Which of the above statement(s) is/are correct?

(A) I, II, III, and IV only
(B) II, III, IV, and V only
(C) I, III, IV, and V only
(D) I, II, III, IV, and V

Oct/Nov 2016

83. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): The evolution of central banking established the need for a monopoly of note issue by the Reserve Bank of India.
Reason (R): Placing the function of note issue in the hands of the Government is beset with adverse implications causing possible inflationary pressures.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

84. In estimating the money supply (M3), how should banking sector net non-monetary liabilities be treated in the derivation of the monetary stock?
(A) It must be multiplied by the net foreign exchange assets of the central bank.
(B) It must be added to the central bank's net credit to the Government.
(C) It must be subtracted from the other functional components.
(D) It must be ignored as it does not influence the monetary transmission channels.

Oct/Nov 2022

85. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Banning cryptocurrencies locally will completely stop their usage globally and immediately eliminate the technology.
Reason (R): Cryptocurrencies are borderless in the sense that they span beyond the frontiers of a country and operate virtually through distributed ledger technology.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2018

86. Consider the following statements regarding the principles for Central Bank Digital Currencies (CBDCs):
I. CBDCs should be evaluated based on whether they serve the public interest and enhance the central bank's traditional roles.
II. The best design for a CBDC is argued to be a single-tier system where the central bank manages all consumer-facing activities directly.
III. A promising design is an account-based CBDC rooted in an efficient digital identity scheme.
IV. CBDCs should address the imperative of preserving an innovation-friendly level playing field by preventing data silos.
Which of the above statement(s) is/are correct?
(A) I, II, and III only
(B) I, III, and IV only
(C) II, III, and IV only
(D) I, II, III, and IV

NODIA

Oct/Nov 2006

87. Cryptocurrency transactions are often cited as being attractive for illegitimate activities because they bypass established frameworks. Which of the following is a key framework bypassed by these transactions?
(A) Standard Multi-CBDC (mCBDC) settlement arrangements.
(B) Know-Your-Customer (KYC) regimes and AML regulations.
(C) National deficit financing and budgetary frameworks.
(D) Established open platform API technology standards.

May/June 2025

88. Consider the following statements on the broader implications of CBDCs:
I. They maintain a tangible link with the central bank, acting as a marker of trust.
II. Multi-CBDC (mCBDC) arrangements could yield benefits by unburdening legacy cross-

16. (A) It is authenticated by a consensus mechanism and appended to the existing chain of transaction blocks.
Distributed ledger technology operates by grouping transactions into blocks that must be verified by network participants through specific mathematical protocols. Once a block is validated, it is permanently linked to the previous blocks, creating an immutable chronological record. This decentralized method ensures the integrity of the ledger and prevents the possibility of using the same digital unit twice.

17. (A) CBDCs exist entirely separately from the underlying economic transactions to prevent financial inclusion.
Modern designs for central bank digital currencies actually aim to promote financial inclusion by providing easier access to safe and efficient payment methods. They are intended to integrate with economic activities and can be built on open platforms to encourage private sector innovation. Using digital identity schemes helps ensure security while making formal financial services available to a broader population.

18. (A) $2.9 trillion
The total value of the global cryptocurrency market saw a massive surge, reaching its highest historical point in November 2021. This peak reflected a period of intense speculative interest and high valuations for major digital assets. However, the market has since shown significant volatility, highlighting the risks associated with assets whose value is largely driven by investor sentiment.

19. (D) An mCBDC system hosting multiple CBDCs jointly offers the greatest potential for improving cross-border payments.
Collaborative systems that integrate various national digital currencies have the potential to revolutionize international trade settlements. By allowing direct exchange between different sovereign digital tokens, these arrangements can reduce costs and speed up transaction times. This approach maintains the central role of monetary authorities while leveraging new technology to solve the inefficiencies found in current global banking networks.

20. (A) Any true store of value must be either tangible currencies, financial assets, or commodities with intrinsic value, none of which apply to cryptos.
For an asset to reliably preserve wealth over time, it typically needs to have inherent utility or be backed by a credible institution. Cryptocurrencies lack physical form, legal standing as a debt instrument, or intrinsic demand as a commodity. Their high volatility further disqualifies them from being a stable store of value compared to traditional investments or precious metals.

21. (C) Cryptocurrencies perfectly align with the AML/CFT regimes and seamlessly integrate with KYC norms.
A major concern for financial regulators is that digital assets often bypass standard anti-money laundering and know-your-customer protocols. Their anonymous nature makes it difficult to track the source of funds or verify the identity of users, which can facilitate illegal financial activities. This lack of transparency is a primary reason why authorities consider them a threat to financial system integrity.

22. (B) John B Taylor
The economist John B. Taylor developed a famous guideline that suggests how central banks should adjust interest rates in response to changes in inflation and economic output. This rule emphasizes using the policy rate as a primary tool for achieving price stability and full employment. It remains a foundational concept in modern monetary policy used by institutions around the world.

23. (D) Placing this function in the hands of the Government is beset with adverse implications causing possible inflationary pressures.
Historically, giving the executive branch direct control over printing money often led to excessive spending and runaway inflation. By granting an independent central bank the sole right to issue currency, a country can ensure that monetary growth remains aligned with actual economic needs. This separation helps protect the currency's value and maintains public confidence in the national financial system.

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(B) It would require the country to completely dismantle its internal blockchain networks.
(C) It could magnify the risk of currency substitution, threatening domestic pricing stability.
(D) It would force the country to ban all commercial banks and shift to a single-tier CBDC system.

Oct/Nov 2005

95. Why do authorities often view stable coins with concern despite their relative lack of volatility compared to other cryptocurrencies?
(A) They are more effective as currency than volatile cryptos, but increase risks if backing assets and liabilities are mismatched.
(B) They are completely unregulated and anonymous digital assets, unlike the transparent nature of established bitcoin networks.
(C) They guarantee zero risk of money laundering or terrorist financing.
(D) They automatically integrate with core banking software without API access.

May/June 2020

96. Which identity framework for a CBDC is considered most promising to balance personal data collection with the prevention of illicit activities?
(A) An entirely anonymous, decentralized token-based model.
(B) An account-based CBDC rooted in an efficient digital identity scheme.
(C) A hardware-bound physical wallet completely disconnected from the internet.
(D) A speculative stable coin pegged to a basket of corporate commodities.

Oct/Nov 2015

97. What is the greatest potential benefit of a multi-CBDC (mCBDC) arrangement for cross-border payments?
(A) It yields benefits by allowing direct settlement on central banks' balance sheets without the need for intermediary credit.
(B) It guarantees the absolute anonymity of all parties involved in the facilitation of international trade.
(C) It enforces a strict barter system, eliminating the requirement for any digital or physical fiat currencies.
(D) It replaces national fiat currencies with a single globally mined cryptocurrency that has no central issuer.

May/June 2013

98. What is a significant macroeconomic risk associated with the proliferation of stable coins pegged to a foreign currency in a domestic economy?
(A) It will force the central bank to completely halt the printing of all physical notes.
(B) It may lead to possible dollarisation, undermining the local currency and weakening monetary policy.
(C) It will automatically grant a private company the domestic monopoly of note issue.
(D) It will resolve the budgetary deficit of the Government through deficit financing.

Oct/Nov 2021

99. Why is the comparison between a domestic CBDC and foreign bank notes circulating in an economy considered flawed in a digital context?
(A) Foreign bank notes are digital entities, while CBDCs are strictly physical forms of tender.
(B) CBDCs automatically generate a high rate of interest compared to foreign bank notes.
(C) Foreign bank notes rely on distributed ledger technology, whereas domestic CBDCs do not.
(D) The issuing central bank would need to recognize any non-domestic user as a member of the CBDC network.

May/June 2024

100. What complementary measure is recommended alongside the introduction of a domestic CBDC to safeguard the national currency?
(A) Eradicating all forms of physical fiat money and central bank notes immediately.
(B) Promoting unregulated peer-to-peer cryptocurrency networks for all retail transactions.
(C) Pegging the domestic CBDC explicitly to the market valuation of private cryptocurrencies.
(D) Having robust legal tender provisions that promote the use of the national currency in domestic payments.

NODIA

border systems.
III. A foreign jurisdiction's CBDC could increase the risk of domestic currency substitution.
IV. They are conducive to greater access and lower costs when built on open platforms using APIs.
V. The Reserve Bank of India announced the introduction of CBDC in the 2022 budget.

Which of the above statement(s) is/are correct?
(A) I, II, IV, and V only
(B) I, II, III, and V only
(C) II, III, IV, and V only
(D) I, III, IV, and V only

Oct/Nov 2019

89. A central bank is evaluating the current monetary policy framework to contain inflationary pressures. If a policy suggestion is made to allow the Government to directly issue bank notes to finance the budgetary gap, what is the primary economic danger based on central banking principles?
(A) It would prevent the central bank from acting as a banker to commercial banks.
(B) It is beset with adverse implications causing possible inflationary pressures.
(C) It would force the government to peg the domestic currency directly to foreign exchange reserves.
(D) It would completely eliminate the need for commercial credit creation.

May/June 2009

90. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A): Regulatory authorities often express concern regarding stable coins due to their potential widespread use.
Reason (R): Stable coins are pegged to official currencies and could be more effective as currency, but could increase financial risks if backing assets and liabilities mismatch.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2011

91. If domestic citizens hold a significant portion of their deposits in a stable coin pegged to a foreign convertible currency, how is domestic credit creation affected?
(A) Credit creation in domestic currency expands exponentially.
(B) The ability to mobilize deposits in local currency is diminished, and credit creation becomes impervious to domestic monetary policy.
(C) Credit creation in the convertible currency becomes highly responsive to the domestic policy interest rates.
(D) The central bank gains complete control over the total market capitalisation of the stable coin.

May/June 2010

92. To prevent the accumulation of market power and the emergence of data silos in a digital economy, what technological framework is recommended for CBDCs?
(A) Closed proprietary networks with no external access.
(B) Decentralized Finance (DeFi) protocols operating outside the regulatory ambit.
(C) Open platforms built on technical standards such as Application Programming Interfaces (APIs).
(D) Legacy cross-border payment systems restricted to central bank personnel.

Oct/Nov 2024

93. In a two-tier design for a Central Bank Digital Currency (CBDC), what is the primary role of commercial banks?
(A) Operating the core of the system and ensuring overall security.
(B) Formulating the monetary policy and setting policy interest rates.
(C) Minting physical fiat currency to back the digital assets.
(D) Managing most operational tasks and consumer-facing activities.

May/June 2017

94. Which of the following is a critical concern for a central bank regarding the use of a foreign jurisdiction's CBDC within its borders?
(A) It could mandate the use of physical gold coins for all domestic transactions.

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+ Government's currency liabilities - Banking sector net non-monetary liabilities.
Broad money supply is calculated by summing various assets generated through banking functions while adjusting for specific liabilities. It includes credit extended to the government and the private sector, along with net foreign assets and government's currency liabilities. Subtracting net non-monetary liabilities ensures that the final figure accurately represents the total liquidity available within the national economy.

9. (B) They can be effectively regulated by country-specific regulators because they operate within defined national borders.
Cryptocurrencies are fundamentally borderless and exist across global digital networks, making them difficult for any single national authority to monitor or control. Unlike fiat money, which is tied to a specific territory and sovereign issuer, these assets lack a centralized governing body. This decentralized and international nature presents significant hurdles for implementing standard regulatory frameworks and protecting retail investors.

10. (C) Imposition of a 30 per cent tax on all crypto transactions.
The government introduced a specific fiscal measure to address the growing volume of digital asset trading by applying a thirty percent tax on profits. This policy aims to bring these transactions under the fiscal net and monitor the flow of funds within the ecosystem. It reflects a cautious approach toward digital assets without granting them the status of legal tender.

11. (D) The accumulation of market power arising from the exclusive use of data by a single commercial entity.
Central bank digital currencies are designed to enhance the efficiency of payment systems while maintaining the neutrality of money. They ensure that settlements are final and that liquidity is readily available through the lender of last resort. One primary goal is to foster competition and prevent private companies from monopolizing transaction data, thereby ensuring a fair and open economy.

NODIA

12. (C) It is the digital form of a country's fiat currency, issued and regulated by a nation's monetary authority or central bank.
A central bank digital currency is a sovereign instrument that represents a liability of the monetary authority. Unlike private cryptocurrencies, it is recognized as legal tender and is fully backed by the state. It mirrors the value of physical cash while leveraging digital technology to improve the speed, security, and accessibility of the modern national payment infrastructure.

13. (A) Since valuation is based on beliefs rather than underlying value, it is likely to have a destabilizing effect on monetary stability.
The price of many digital assets is driven primarily by speculative sentiment and public perception rather than tangible economic fundamentals or cash flows. This lack of intrinsic value leads to extreme price volatility, which can threaten the broader financial system. If these assets become deeply integrated into the economy, their unpredictable fluctuations could undermine national efforts to maintain price stability.

14. (C) They lack an issuer, do not mobilize risk capital, have no intrinsic value, and do not generate underlying cash flows.
Unlike stocks or bonds, cryptocurrencies do not represent a claim on a company's earnings or a government's debt. They are not issued by a specific entity that can be held accountable, nor do they support productive economic activities. Without dividends, interest, or intrinsic utility, they function more as speculative tokens rather than traditional tools for investment or capital formation.

15. (D) They are authenticated centrally by a designated global central bank.
Transactions in the cryptocurrency ecosystem are decentralized and rely on distributed ledger technology rather than a central authority for validation. They typically occur over the internet and are global in reach, often masking the identities of the participants. The process uses consensus mechanisms across a network of computers to verify transactions, intentionally bypassing traditional banking and regulatory institutions.

ANSWERS

1. (D) Satoshi Nakamoto
The origins of bitcoin are widely attributed to a person or group using the pseudonym Satoshi Nakamoto, who released the white paper in 2008. This innovation combined cryptographic techniques with a distributed ledger system to create a decentralized digital currency. It allows peer-to-peer electronic transactions to occur without the need for any central financial institution.

2. (C) As non-reserve currencies, they may negatively impact foreign exchange reserves and undermine regulatory control over capital flows.
Private cross-border transactions using cryptocurrencies introduce significant risks to a nation's macroeconomic stability. Since these are non-reserve currencies, their widespread use can drain official foreign exchange reserves and weaken the central bank's grip on capital flows. This bypasses traditional regulatory frameworks, potentially leading to financial instability and making it harder for authorities to manage domestic monetary conditions.

3. (C) They are cryptocurrencies that are less volatile, often pegged to official currencies, and promoted globally.
Stable coins represent a specific category of digital assets designed to maintain a steady valuation by pegging their price to traditional fiat currencies or physical assets. This mechanism is intended to reduce the extreme price fluctuations characteristic of most cryptocurrencies. While they aim to provide stability for global transactions, they also pose unique risks to the existing financial system.

4. (C) Banning cryptocurrencies would completely eradicate any wealth loss since no investors have acquired them to date.
The argument regarding total prevention of wealth loss is incorrect because a significant number of investors already hold these digital assets. Implementing a ban cannot retroactively eliminate the value fluctuations or financial losses already experienced by current holders. Instead, such a policy focuses on preventing future risks and maintaining the integrity of the formal national monetary system.

5. (B) The banking system's ability to mobilise deposits in local currency and create credit would be diminished.
Permitting private digital currencies priced in foreign convertible denominations can lead to domestic currency substitution. If citizens prefer holding digital assets over local bank deposits, the traditional banking sector loses its primary source of funding. Consequently, the ability of banks to generate credit and the effectiveness of national monetary policy in controlling inflation would be severely undermined.

6. (B) Acting as a zero-coupon perpetual gambling contract.
Traditional central bank money serves essential economic roles, including acting as a reliable medium for transactions, a consistent unit for measuring value, and a standard for future payments. Unlike speculative instruments that lack intrinsic backing, fiat currency is designed for stability and public trust. It provides the foundation for orderly economic activity rather than functioning as a speculative wager.

7. (B) To regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India.
The central bank's fundamental mandate involves managing the issuance of currency and maintaining adequate reserves to ensure the nation's financial health. By controlling the money supply and overseeing the banking sector, the institution aims to keep prices stable and foster sustainable growth. This legal framework establishes the central bank as the ultimate guardian of domestic monetary and fiscal integrity.

8. (B) M3 is derived as Central Bank's net credit to Government + Banks credit to commercial sector + net foreign exchange assets of Central Bank

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24. (D) Peer-to-peer (P2P) crypto transactions inherently involve regulated entities subject to strict AML-CFT regulations.
One of the most significant challenges in the crypto ecosystem is that many transactions occur directly between individuals without going through regulated banks or exchanges. These peer-to-peer transfers are difficult for authorities to monitor or control because they happen outside the established financial oversight framework. This lack of intermediation makes it nearly impossible to consistently enforce anti-money laundering and reporting standards.

25. (B) They are confined to the narrow domain of a few agencies administering the technological platform over the internet.
Cryptocurrency activities are primarily conducted through specialized digital platforms and internet-based protocols. While they can involve participants from across the globe, the actual execution and recording of trades are managed by the specific technological infrastructure of the blockchain. This digital environment operates independently of traditional physical borders and existing national financial systems, catering to a specific niche of users.

26. (D) It is government-issued currency, such as bank notes and coins, which is officially recognized as legal tender.
Fiat money is the standard form of currency used in modern economies, backed by the authority of a sovereign government rather than a physical commodity like gold. It must be accepted for the payment of debts and taxes within the country of issue. Its value depends on the stability of the issuing state and the effectiveness of its monetary policies.

27. (A) Promotion of private decentralized finance protocols.
The central bank focuses on maintaining monetary stability, regulating the banking sector, and acting as the fiscal agent for the government. While it explores new technologies like digital currencies, its primary responsibility is to supervise the formal financial system and manage the money supply. Promoting unregulated private financial networks would conflict with its mandate to ensure security and institutional oversight.

28. (A) November 1, 2022
The Reserve Bank of India initiated a landmark project by launching the wholesale version of its digital currency on a pilot basis in late 2022. This phase was designed to test the use of the digital rupee for interbank settlements and government securities transactions. It marked a significant step in modernizing the nation's financial infrastructure using blockchain-based technology.

29. (C) The central bank creates excess monetary expansion specifically to promote speculative activities and cause inflationary conditions.
Central banks aim to manage the growth of the money supply so that it remains in harmony with the actual production of goods and services. Excessive expansion is generally avoided because it leads to rising prices and erodes the purchasing power of the public. Instead, monetary policy is geared toward achieving price stability and supporting sustainable, non-inflationary growth in the economy.

30. (D) The central bank ensures sound money and security, while the private sector innovates and handles consumer-facing activities.
A two-tier model for digital currency leverages the strengths of both the public and private sectors. The central bank provides the secure foundational layer and maintains the currency's value, while commercial banks and payment providers manage user accounts and provide innovative services. This structure ensures systemic stability while allowing the private market to compete and improve the customer experience.

31. (B) II, III, I
The development of India's digital currency began with a formal announcement in the national budget for the upcoming fiscal year. Following this, the central bank launched a wholesale pilot program targeted at financial institutions. The final step in this sequence was the introduction of a retail version of the digital currency to be tested by the general public.

32. (B) Cryptocurrency - Enables users to manage risk through guaranteed sovereign backing.
Unlike traditional financial instruments like stocks or bonds, cryptocurrencies are not issued

NODIA

CHAPTER 22

RBI Discussion Paper and Report on Sustainable Finance

Oct/Nov 2010

1. The Sustainable Finance Group operates under which department of the Reserve Bank of India?
(A) Department of Supervision (DoS)
(B) Financial Stability Department (FSD)
(C) Monetary Policy Department (MPD)
(D) Department of Regulation (DoR)

May/June 2021

2. Which of the following statements correctly describes the status of methodologies to measure and monitor climate-related financial risks?
(A) They are highly advanced and standardized across all banks.
(B) They were found to be completely irrelevant to modern banking.
(C) They were not sufficiently developed.
(D) They are sufficiently developed but intentionally ignored by top management.

Oct/Nov 2006

3. What does the abbreviation KPIs refer to in the evaluation of top management?
(A) Key Policy Implementation Indicators
(B) Key Portfolio Tracking Indicators
(C) Key Performance Indicators
(D) Key Process Efficiency Indicators

Oct/Nov 2015

4. Which of the following statements is incorrect about quantifying climate risks in portfolios?
(A) A few banks are attempting to quantify the amount of their loan portfolio susceptible to climate risks.
(B) A few banks are attempting to quantify the amount of their investment portfolio susceptible to climate risks.
(C) Almost all banks have successfully quantified the exact monetary value of their climate-susceptible portfolios.
(D) Some banks focus on environmental risks alongside social and governance aspects for certain credit proposals.

May/June 2007

5. Why is it suggested that banks align their climate-related financial disclosures with an internationally accepted framework?
(A) To reduce the operational cost of compliance for domestic bank branches
(B) To improve the comparability of disclosures with global counterparts
(C) To bypass complex domestic regulatory and financial reporting requirements
(D) To qualify for international sovereign bailouts during financial crises

Oct/Nov 2019

6. Which of the following is NOT a common observation regarding how banks handle credit proposals above a certain amount?
(A) Carefully considering climate-related financial risks
(B) Rejecting all proposals from the manufacturing sector
(C) Evaluating social aspects of the potential credit borrower
(D) Reviewing governance aspects of the potential credit borrower

May/June 2023

7. What does the acronym ESG stand for in the context of sustainable finance?
(A) Economic, Social and Governance
(B) Environmental, Social and Governance
(C) Environmental, Strategic and Governance
(D) Ecological, Sustainable and Governance

Oct/Nov 2022

8. Which of the following statements is correct regarding the strategic approach of banks towards ESG initiatives?
(A) A majority of banks had a separate business unit for sustainability and ESG-related

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41. (D) I, II, and III
A central bank digital currency functions as a digital version of fiat money, carrying the full status of legal tender for the exchange of goods. It allows for direct settlement without needing credit from intermediaries, which increases the overall safety of the payment system. By mirroring the national currency's value, it preserves essential features like liquidity, finality, and institutional integrity.

42. (C) To ban cryptocurrency to prevent the undermining of financial integrity and the weakening of the banking system.
Authorities may decide that the risks posed by private digital assets to monetary policy and financial stability are too great to allow their circulation. By implementing a ban, a country seeks to protect its sovereign currency and ensure that the banking sector remains stable. This measure is intended to prevent illegal activities and safeguard the domestic economy from extreme volatility.

43. (B) Top five cryptocurrencies' share of market capitalisation - 71%
Although thousands of different digital tokens exist, the market is heavily dominated by a small number of prominent assets. By early 2022, the five largest cryptocurrencies accounted for nearly three-quarters of the total market value. This high level of concentration shows that despite the decentralized nature of the technology, investor interest and capital are focused on a few major players.

44. (A) P-4, Q-1, R-3, S-2
Fiat money is a sovereign instrument used for future payments, while gold is a physical commodity valued for its inherent properties. Private digital assets typically lack an issuer or any intrinsic value, making them purely speculative. In contrast, sovereign digital currencies are pegged to the national fiat unit and provide a secure, government-backed alternative for the modern digital economy.

45. (B) I and III only
The widespread use of digital assets linked to foreign currencies can lead to the dollarisation of a domestic economy, weakening the local currency. Furthermore, if credit is created in these foreign-pegged assets, it becomes very difficult for the national central bank to control inflation through domestic interest rates. This loss of monetary autonomy can destabilize the national financial framework.

46. (B) They have no underlying use, unlike functional software, being essentially electronic codes.
Most digital assets are simply strings of computer code that do not provide any tangible service or utility beyond their own exchange. This differs from functional digital products like software or media, which have specific purposes and inherent value to users. Without an underlying economic function or cash flow, these tokens act more as speculative markers than as productive assets.

47. (C) Both I and II
Implementing a two-tier system for digital currencies helps the central bank maintain systemic safety while allowing the private sector to innovate. By using open technological standards, authorities can prevent single companies from controlling all transaction data and creating monopolies. This combined approach ensures that the new digital money remains neutral, accessible, and supportive of a competitive and innovative financial environment.

48. (A) P-3, Q-2, R-4, S-1
The central bank manages the money supply to prevent inflation and advises the government on its borrowing needs. It also oversees foreign exchange to ensure stability in international trade and uses monetary policy to guide credit into productive areas of the economy. These various functions work together to maintain a stable and healthy financial environment for the entire country.

49. (A) Fiat money - An internet-based transaction using distributed ledger technology without central authority.
Fiat money is explicitly defined by its central issuance and government backing, making it the opposite of a decentralized, internet-based protocol. It serves as legal tender through the authority of the state rather than a shared digital ledger. Understanding this distinction is crucial, as private digital assets lack the sovereign

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presents significant challenges for official oversight.

68. (C) Assertion (A) is true, but Reason (R) is false.
Many digital currency projects use a two-tier model because it combines the safety of a central bank with the efficiency of the private sector. While the central authority manages the core system, commercial banks are generally much better at handling customer service and daily operations. This structure allows each group to focus on what they do best, ensuring a secure and user-friendly system.

69. (A) Policy interest rate regulation.
To ensure that the growth of money in the economy does not lead to high inflation, central banks often follow specific rules for adjusting interest rates. By raising or lowering the cost of borrowing, they can influence how much money is created and spent. This process is a key part of modern monetary policy and helps maintain price stability over time.

70. (A) I, II, IV, and V only
Regulating digital assets is difficult because they are global, anonymous, and lack a central database that authorities can monitor. Many trades happen directly between people without going through any regulated financial companies. Some officials also worry that creating rules for these assets might make them seem more legitimate, even though they can sometimes behave like unsustainable speculative investment schemes.

71. (A) Banning cryptocurrency is seen as a way to prevent the undermining of the currency system.
To protect the stability of the national economy and the integrity of the sovereign currency, some governments consider a total prohibition of private digital assets. This move is intended to prevent these unregulated instruments from weakening the banking system and facilitating illegal transactions. By restricting their use, authorities aim to ensure that the central bank remains the sole manager of monetary policy.

72. (B) I, III, and IV only
Sovereign digital currencies are fundamentally different from private assets because they are issued by the state and backed by the central bank. They aim to improve financial inclusion and provide a safe alternative to speculative gambling contracts. For these new digital currencies to succeed, they need strong legal support that encourages people to use the national currency for their daily payments.

73. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
When people in a country start using digital assets tied to the US dollar, it can lead to the local currency being pushed aside. This process, known as dollarisation, occurs because these assets can easily bypass national regulations and provide an alternative to the official domestic money. This loss of control makes it much harder for the central bank to manage the economy.

74. (C) Assertion (A) is true, but Reason (R) is false.
Allowing private currencies based on foreign denominations would reduce the amount of money held in local bank accounts, making it harder for banks to lend. Furthermore, if credit is created using these foreign-linked assets, the domestic central bank cannot control it using its normal interest rate policies. This disconnect creates a separate financial system that is not responsive to national economic goals.

75. (D) Historically, currency has always been either a commodity with intrinsic value or a debt instrument issued by a specific entity.
To be a reliable store of value, an asset usually needs to have inherent worth or represent a legal claim on an issuer. Most digital assets have neither, as they are not backed by any government and have no practical use on their own. This lack of a solid foundation distinguishes them from the forms of money that have successfully preserved wealth.

NODIA

76. (A) I and III only
Some argue against prohibiting digital assets because many advanced nations have not yet done so. There is also a concern that a ban might slow down the development of the underlying blockchain technology, which could have many beneficial uses beyond just currency. However, proponents of a ban believe it is necessary to protect the formal financial system from the risks of unregulated speculation.

central bank's multiple roles in financing the state, supporting industry, and managing trade.

59. (A) Only I
In a distributed ledger, every new set of transactions must be approved through a consensus process before it is added to the permanent chain. While linking blocks helps prevent the same unit of currency from being spent twice, this security still requires significant mathematical work from the network. This foundational process ensures that the record remains accurate and secure without a central authority.

60. (A) P-3, Q-2, R-4, S-1
Anti-money laundering rules help keep illegal activity out of the financial system, while government taxes aim to monitor and regulate digital asset trading. New arrangements for national digital currencies show promise for improving international payments by allowing direct settlements. However, implementing global standards like identity tracking remains difficult due to the anonymous nature of many decentralized digital transactions.

61. (A) I, II, III, and IV only
The history of digital assets shows a rapid rise from a niche technology to a multi-trillion dollar market dominated by a few major coins. Bitcoin remains a primary player, accounting for nearly half of the total market value. While investor interest is concentrated in the largest assets, the claim that the top five hold nearly all the value is slightly overstated.

62. (C) Assertion (A) is true, but Reason (R) is false.
While the government has implemented a tax on profits from digital asset trades, this fiscal move does not mean the assets have been officially recognized as legal tender. Taxation is a method to track financial flows and collect revenue, but it does not grant these speculative instruments the same legal status or sovereign backing as the national fiat currency.

63. (A) I, II, and III only
Private digital assets present risks because they can bypass identity checks and anti-money laundering regulations. Their speculative valuations can destabilize the national financial system, especially if they start to replace traditional bank deposits. While some digital assets aim for stability, they still pose risks if the assets backing them do not perfectly match their liabilities, potentially causing financial distress.

64. (C) The banking system's ability to mobilise deposits in local currency and create credit would be diminished.
If a large number of people move their savings into digital assets pegged to foreign currencies, the domestic banking sector will lose the funds it needs to operate. This drain of liquidity makes it harder for banks to lend money to businesses and consumers in the local currency. As a result, the national economy suffers, and the central bank loses its effectiveness.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Digital assets do not fit the historical definition of money because they lack an issuer, have no intrinsic value, and do not represent a debt obligation. Standard currencies are backed by a trusted entity or have inherent worth, providing a reliable foundation for trade. Without these core characteristics, cryptocurrencies function more as speculative tokens than as a stable and credible form of currency.

66. (A) They are global products outside official control, making it difficult to address mis-selling due to lack of ledger access.
One major problem for regulators is that decentralized assets operate on a global scale beyond any single country's legal reach. When fraud or mis-selling occurs, authorities often cannot see the transaction history or identify the parties involved because they do not have access to the digital ledger. This lack of transparency makes it extremely difficult to protect consumers and enforce laws.

67. (A) I, II, and III only
Digital currency transfers rely on decentralized technology to create a permanent and secure record of all trades. By linking transactions together, the system aims to prevent the same digital unit from being used more than once. However, these activities are often anonymous and happen over the internet without being managed by a central global regulator, which

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can stop usage within that country, the global network continues to operate, highlighting the challenge of regulating truly borderless digital systems.

86. (B) I, III, and IV only
Designing a national digital currency should focus on serving the public and improving the existing financial system. Using an account-based model with official IDs provides security, while open technological standards help prevent data monopolies. This approach encourages a fair and innovative environment where multiple companies can compete to provide the best services to consumers while maintaining the safety of the currency.

87. (B) Know-Your-Customer (KYC) regimes and AML regulations.
One of the main reasons digital assets are used for illegal activities is that they allow people to move money without following standard banking rules. These systems often do not require users to prove their identity or explain where their funds came from. By bypassing these critical safeguards, digital transactions can hide the flow of money, making it difficult for law enforcement.

88. (A) I, II, IV, and V only
Sovereign digital currencies can build trust by providing a direct link to the central bank. Collaborative international systems also have the potential to make cross-border payments much faster and cheaper. By using open platforms, these systems can lower costs and encourage innovation. Many countries, including India, have recognized this potential and are actively working on their own official digital currency projects.

89. (B) It is beset with adverse implications causing possible inflationary pressures.
Allowing a government to print its own money to cover spending is widely seen as a recipe for economic disaster. Without the oversight of an independent central bank, the temptation to create too much money is very high, which leads to rising prices and a loss of confidence in the currency. Protecting the central bank's independence is essential for maintaining long-term monetary stability.

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90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Officials are concerned about digital assets that are pegged to traditional currencies because they could become very popular for daily use. If the companies behind these assets do not have enough funds to back them up, it could lead to a financial crisis. This mismatch between assets and liabilities poses a significant risk to the overall stability of the broader financial system.

91. (B) The ability to mobilize deposits in local currency is diminished, and credit creation becomes impervious to domestic monetary policy.
If a large portion of a country's savings moves into digital assets linked to a foreign currency, the local banking sector loses its ability to lend. This shift makes it very difficult for the central bank to manage the economy, as its interest rate changes no longer affect the cost of borrowing. This loss of control can lead to a weaker and less stable economy.

92. (C) Open platforms built on technical standards such as Application Programming Interfaces (APIs).
To prevent a few tech companies from controlling all financial data and stifling competition, national digital currencies should be built on open and accessible platforms. This allows different services to work together and ensures that users have control over their own information. Such a framework encourages constant innovation and helps create a more diverse and efficient digital payment ecosystem for everyone.

93. (D) Managing most operational tasks and consumer-facing activities.
In a two-tier digital currency system, commercial banks and payment providers are responsible for interacting with the public. They handle tasks like opening accounts, providing customer support, and managing the technology that people use for their daily payments. This allows the central bank to focus on the core security and stability of the system while leveraging the private sector's ability to innovate.

77. (D) As a speculative or gambling contract akin to a zero-coupon perpetual.
Because many digital tokens offer no interest and never return a principal amount, they do not function like traditional investments. Without an issuer to guarantee their value or any underlying cash flow, they are purely speculative assets. Investors essentially buy them hoping to sell to someone else at a higher price, making them very similar to a long-term gambling wager.

78. (A) I, II, IV, and V only
Digital assets are distinguished from traditional money because they lack a sovereign issuer and do not represent a debt obligation. They are essentially strings of computer code without any practical underlying use or intrinsic value. Furthermore, their extreme volatility prevents them from being a reliable way to settle payments at a future date, which is a core function of a true currency.

79. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
National digital currencies built on open technological standards can prevent a few large companies from controlling all financial information. By giving users control over their own data, these systems encourage competition and new ideas in the financial sector. This open approach helps create a more fair and innovative digital economy where information is not locked away by private monopolies.

80. (D) Assertion (A) is false, but Reason (R) is true.
Traditional rules for managing international money flows are not enough to regulate digital assets because these transactions often happen outside the normal banking system. Digital currency payments can bypass the standard checks and intermediaries that authorities use to monitor capital movement. This makes it very difficult to apply existing regulations effectively without new tools specifically designed for the decentralized nature of the technology.

81. (C) Creating native cryptocurrencies is just one way of implementing a blockchain; the technology has many other uses that do not involve virtual currency.
While blockchain technology was first used to create digital currencies, it is a versatile tool with many other potential applications. It can be used for things like tracking supply chains, managing medical records, or securing voting systems without needing a speculative token. Prohibiting digital assets does not mean the end of the underlying technology, which continues to evolve in many industries.

82. (A) I, II, III, and IV only
The total money supply is made up of credit provided by the central bank and commercial banks, along with the nation's foreign assets and government-issued currency. These components reflect the different ways money enters the economy through formal banking activities. To get the final figure, certain liabilities that are not used as money must be taken away from the total.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Giving an independent central bank the sole right to issue money is vital for keeping prices stable. If the government could print money whenever it wanted to pay for its expenses, it would likely lead to excessive spending and high inflation. This separation of powers ensures that the amount of money in circulation is managed based on the actual needs of the economy.

84. (C) It must be subtracted from the other functional components.
When measuring the total amount of money in the economy, authorities must adjust for liabilities in the banking system that do not act as circulating cash or deposits. By removing these non-monetary items from the calculation, the final figure accurately shows the amount of liquidity available for spending and investment. This ensures that the money supply data used for policy is correct.

85. (D) Assertion (A) is false, but Reason (R) is true.
A single country's decision to prohibit digital assets will not stop them from being used in other parts of the world. Because the technology is decentralized and exists on the internet, it is not restricted by physical borders. While a local ban

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guarantee and institutional oversight that give traditional currency its stability.

50. (A) P-4, Q-3, R-2, S-1
Stable coins aim for lower volatility by pegging to traditional currencies, while digital assets often consist of electronic codes without practical utility. Distributed technology creates a permanent record, and linking blocks in a chain prevents the risk of using the same unit more than once. These various technical and economic concepts define the complex landscape of the modern digital currency ecosystem.

51. (A) I and II only
Because digital assets are global and exist outside the control of any single government, they are inherently difficult to regulate. International standards like the 'Travel Rule' are hard to enforce due to the anonymous nature of many transactions. Furthermore, if a system fails, domestic authorities often lack the necessary access to the digital ledger to protect investors or provide legal recourse.

52. (A) II, IV, I, III
The global valuation of cryptocurrencies began at a very low level in early 2017 before growing substantially. A period of intense speculation drove the market to a massive peak in late 2021. Following this surge, the total market value experienced a decline, reflecting the high volatility and changing investor sentiment toward these decentralized digital assets over the past few years.

53. (A) P-4, Q-2, R-3, S-1
Decentralized finance offers an alternative to traditional banking, while blockchain provides the secure record-keeping foundation. Specialized cryptographic tokens are often unique and cannot be exchanged for one another. To verify transactions, the network uses an agreed-upon process that ensures everyone is in sync. These elements work together to create the complex technological environment where digital currencies and assets operate.

54. (B) Only II
Prohibiting digital assets can be an effective policy because most law-abiding citizens will stop using them to avoid legal trouble. This limits the market to a small number of people willing to risk illegal activity, making it easier for authorities to monitor and crack down on wrongdoing. However, many peer-to-peer transactions still occur without oversight, bypassing traditional banking and regulatory checks.

55. (A) Wholesale version of CBDC - 1st November 2022
The central bank's initiative to digitize the national currency began with a targeted pilot for large-scale financial institutions in late 2022. This wholesale version was intended to streamline interbank settlements and improve the efficiency of government bond markets. It preceded the retail version, which was launched later to test the currency's use by individual consumers and small businesses.

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56. (A) An account-based CBDC rooted in an efficient digital identity scheme.
To balance the need for privacy with the requirement to prevent illegal financial activity, an account-based system using official digital IDs is considered highly effective. This design allows the central bank to verify users and track transactions for regulatory purposes while maintaining the security and efficiency of a modern digital payment system. It provides a safer alternative to completely anonymous tokens.

57. (A) I and II only
Economic theories suggest that the demand for money is tied to long-term wealth, and policy rules can guide how interest rates should respond to inflation. Central banks strive to keep monetary growth in line with real economic output to avoid devaluing the currency. Excessive expansion that leads to unpredictable price increases is generally avoided to protect the economy and fixed-income earners.

58. (A) P-3, Q-4, R-1, S-2
Calculating the total money supply involves combining credit provided to the government and the private sector with the nation's foreign exchange assets. Certain liabilities that do not serve as circulating money must be removed from the total to provide an accurate measure of liquidity. These various components reflect the

94. (C) It could magnify the risk of currency substitution, threatening domestic pricing stability.
A central bank must be wary if people within its borders start using a digital currency issued by another country. This can lead to a situation where the local currency is used less often, making it harder for the government to manage inflation and prices. Protecting the use of the national currency is essential for maintaining economic independence and financial stability for the country.

95. (A) They are more effective as currency than volatile cryptos, but increase risks if backing assets and liabilities are mismatched.
Because some digital assets are designed to keep a steady value, they are more likely to be used for regular payments than highly volatile tokens. However, this popularity creates a systemic risk if the assets meant to back the currency are not sufficient or are hard to sell during a crisis. This potential for a sudden loss of value can destabilize the financial system.

96. (B) An account-based CBDC rooted in an efficient digital identity scheme.
An effective way to make a national digital currency secure is to link user accounts to a reliable official ID system. This allows the authorities to ensure that the currency is being used legally while still providing a fast and modern payment method. By verifying who is using the system, the central bank can protect against fraud and other illegal financial activities.

97. (A) It yields benefits by allowing direct settlement on central banks' balance sheets without the need for intermediary credit.
Systems that connect different national digital currencies can make global trade much more efficient. By allowing money to move directly between central banks, these arrangements eliminate the need for extra steps and credit from middleman banks. This reduces the risk and cost of international transactions, making the entire global financial system faster and more secure for everyone involved in trade.

98. (B) It may lead to possible dollarisation, undermining the local currency and weakening monetary policy.
When a large number of citizens use digital assets tied to a foreign currency, the domestic central bank loses its influence over the economy. This process weakens the local currency and makes it much harder for officials to control inflation or interest rates. Over time, this loss of monetary power can lead to instability and make the national economy more vulnerable to global shocks.

99. (D) The issuing central bank would need to recognize any non-domestic user as a member of the CBDC network.
While physical foreign cash can circulate easily in any country, a digital version is different because it exists on a specific technological network. For someone in another country to use it, the issuing central bank would have to allow them onto that digital platform. This requirement for official recognition makes the digital version much easier for authorities to monitor and control compared to physical banknotes.

100. (D) Having robust legal tender provisions that promote the use of the national currency in domestic payments.
To ensure that a new digital currency is successful and widely used, a country should have strong laws that support its national money. These provisions require businesses and individuals to accept the official currency for all local debts and transactions. By making the national currency the most convenient and legally supported option, the government can protect its economic stability and monetary sovereignty.

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or guaranteed by any government or central authority. They lack sovereign backing, which means users must bear the full risk of value fluctuations and potential total loss. This absence of institutional support distinguishes them from legal tender and other regulated assets that provide a safety net for investors.

33. (B) It would bypass established intermediation and control arrangements like KYC regimes, potentially facilitating illegal transactions.
Integrating digital assets into the formal economy poses risks because they often operate outside the oversight of traditional financial institutions. Their decentralized nature allows users to move funds without undergoing standard background checks or identity verification. This lack of transparency can be exploited for money laundering or financing prohibited activities, making it difficult for regulators to maintain a secure financial environment.

34. (B) Only II
Evidence shows that digital assets experience extreme price swings, often behaving more like speculative wagers than stable currencies. This high volatility makes them unreliable for daily transactions or as a safe store of value. Furthermore, because their worth is based on speculation rather than intrinsic utility, they can indeed pose significant risks to the overall stability of the national financial system.

35. (A) P-4, Q-2, R-1, S-3
The global valuation of digital assets has changed dramatically over several years. Early in 2017, the market was relatively small, but it grew significantly by 2020. A massive speculative peak was reached in late 2021 before experiencing a correction by early 2022. These figures illustrate the rapid expansion and subsequent volatility of the total market capitalization of cryptocurrencies.

36. (A) I and II only
Cryptocurrencies share characteristics with perpetual bonds that offer no interest, as they provide no recurring income or principal repayment. They also differ from equity because they do not represent ownership in a productive enterprise or help businesses raise capital for growth. Despite claims of their utility as currency, there is little evidence that they are used for standard commercial trade.

37. (A) A speculative or gambling contract akin to a zero-coupon perpetual.
From a financial perspective, many digital assets resemble speculative contracts that never mature and offer no periodic payments. Because they lack an issuer and generate no underlying cash flow, their value is entirely dependent on the next buyer's price. This makes them highly risky instruments that serve more as speculative vehicles than as productive financial assets or stable currencies.

38. (A) P-4, Q-2, R-1, S-3
In a digital currency system, the central authority maintains the core security and monetary value, while commercial entities handle the daily interactions with customers. Account-based models are used to verify identities and prevent illegal usage, while technical standards like open interfaces allow different systems to communicate. This balanced approach ensures a secure, efficient, and competitive digital financial ecosystem.

NODIA

39. (C) Both I and II
Historically, all successful forms of money have either possessed intrinsic value as a commodity or represented a debt obligation from a trusted issuer. Cryptocurrencies fail to meet these criteria, as they are not backed by any entity and have no practical use on their own. This fundamental difference distinguishes them from fiat currencies and traditional assets used throughout human history.

40. (A) P-3, Q-4, R-1, S-2
Economic theories on money demand are often linked to permanent income, while monetary policy rules frequently focus on interest rate adjustments. The creation of the first decentralized digital currency is associated with the pseudonym Satoshi Nakamoto. Additionally, international financial organizations play a key role in analyzing the design choices and systemic implications of new central bank digital currencies.

initiatives.
(B) Only a few banks had a strategy for embedding ESG principles in their business.
(C) All banks have completely scaled up their sustainable finance portfolio.
(D) No bank has attempted to incorporate climate change risks into their existing risk management framework.

May/June 2012

9. Which of the following statements is incorrect concerning climate-related financial disclosures?
(A) Alignment with international frameworks improves comparability.
(B) A majority of banks have successfully aligned their disclosures with internationally accepted frameworks.
(C) Alignment with international frameworks improves consistency of disclosures.
(D) Currently, a majority of banks have not aligned their disclosures with any internationally accepted framework.

Oct/Nov 2025

10. In the context of capacity building, what was the general consensus among banks regarding the availability of data for climate-related financial risks?
(A) Data was abundant, highly accurate, and readily accessible
(B) Data was sufficient for short-term internal assessment only
(C) Data was insufficient for an appropriate assessment
(D) Data was exclusively available for tracking physical risks

Oct/Nov 2012

11. Which of the following is NOT cited as an opportunity from the transition to a green future?
(A) Mobilizing new capital specifically to scale up green lending
(B) Setting a target for incremental lending for sustainable finance
(C) Mobilizing new capital specifically to scale up green investment
(D) Investing in legacy high-carbon technologies

May/June 2016

12. The term "net-zero emissions" for banking operations is aligned with India's national commitment made at which global forum?
(A) The Paris Agreement
(B) The G20 Summit
(C) The COP26 Summit
(D) The Kyoto Protocol

Oct/Nov 2009

13. Which of the following statements is correct regarding the banking sector's approach to low-carbon operations?
(A) Most banks plan to increase the proportion of renewable energy in their total sourced electricity.
(B) Most banks have taken measures or have plans to increase their absolute carbon emissions.
(C) A majority of banks have already achieved carbon neutrality.
(D) No bank has announced a time-bound plan to become carbon-neutral.

May/June 2019

14. How are banks expected to integrate climate risk into their broader organizational structure?
(A) By replacing credit risk assessments entirely with climate risk metrics
(B) By outsourcing all risk management to specialized external environmental agencies
(C) By integrating climate risk into the existing risk management framework
(D) By creating a parallel risk management system disconnected from financial risks

NODIA

Oct/Nov 2018

15. Regarding governance in the context of climate risk, which of the following is NOT a suggested action for banks?
(A) Put in place a mechanism at the Board level for overseeing sustainability initiatives.
(B) Put in place a mechanism at the top management level for scaling up climate risk initiatives.
(C) Consider including KPIs on climate risk and ESG in the performance evaluation of top management.
(D) Mandate the immediate resignation of board members failing to meet ESG targets.

Which of the above statements is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2010

46. What is the most appropriate action for banks to take regarding their loan and investment portfolios in the context of risk management?
(A) Liquidate all portfolios that have any exposure to transition risks
(B) Actively manage risks to make portfolios more resilient
(C) Shift entirely from loan portfolios to specialized investment portfolios
(D) Ignore physical risks as they are covered by traditional insurance policies

Oct/Nov 2011

47. Consider the following statements regarding operational emissions:
I. Most banks have plans to decrease absolute carbon emissions arising from their operations.
II. Most banks plan to decrease the proportion of renewable energy in their total sourced electricity to cut costs.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2005

48. Match the entities or acronyms in List I with their corresponding expansions in List II.
List I: (Acronyms)
P. SFG
Q. DoR
R. ESG
S. KPI
List II: (Expansions)
1. Key Performance Indicator
2. Sustainable Finance Group
3. Department of Regulation
4. Environmental, Social and Governance
(A) P-2, Q-3, R-4, S-1
(B) P-3, Q-2, R-1, S-4
(C) P-2, Q-4, R-3, S-1
(D) P-4, Q-3, R-2, S-1

Oct/Nov 2022

49. Which of the following pairs of 'Action' and 'Intended Goal' is incorrectly matched?
(A) Expanding high-carbon emitting business exposure — Moving towards a low-carbon environment
(B) Launching green deposits — Scaling up lending to environment-friendly businesses
(C) Increasing renewable energy — Decreasing absolute carbon emissions
(D) Aligning disclosures internationally — Improving comparability and consistency

May/June 2015

50. Match the identified gap or deficiency in List I with its corresponding area in List II.
List I: (Gap/Deficiency)
P. No separate vertical
Q. Insufficient data
R. Yet to assign responsibility
S. Not aligned with international frameworks
List II: (Area)
1. Board-level engagement
2. Strategy
3. Financial Disclosures
4. Capacity building
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-2, Q-1, R-4, S-3
(D) P-4, Q-2, R-1, S-3

Oct/Nov 2008

51. Consider the following statements regarding suggestions for Risk Management:
I. Banks need to fully grasp physical, transition, and liability risks.
II. Banks should actively start managing risks to make portfolios more resilient.
III. Banks need to develop a strategy for managing climate risk outside of their existing risk management framework.
Which of the above statements is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2008

52. Arrange the following events or targets related to sustainable finance in the correct chronological sequence from earliest to latest.
I. India's commitment at the COP26 Summit

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Oct/Nov 2024

25. Which of the following statements is correct regarding board-level engagement on climate risk?
(A) Board-level engagement on climate risk and sustainable finance is deemed highly adequate.
(B) In about a third of banks, responsibility for overseeing related initiatives was yet to be assigned.
(C) All banks have assigned responsibility for overseeing climate risk initiatives.
(D) A majority of banks have included ESG-related KPIs in the performance evaluation of top management.

May/June 2017

26. In the context of banking operations, how is a "green deposit" primarily utilized?
(A) To fulfill mandatory statutory liquidity ratio requirements of the central bank
(B) To provide significantly higher interest rates for rural agricultural deposits
(C) To completely offset the operational carbon emissions of the banking entity
(D) To scale up lending to environment-friendly businesses

Oct/Nov 2005

27. Which of the following is NOT explicitly identified as a specific type of risk banks need to grasp in the context of climate-related financial risks?
(A) Reputational risks
(B) Climate Physical risks
(C) Financial Liability risks
(D) Economic Transition risks

May/June 2020

28. In which month and year was the report on the Survey on Climate Risk and Sustainable Finance published?
(A) July 2022
(B) January 2022
(C) March 2022
(D) May 2022

Oct/Nov 2021

29. Which of the following statements is incorrect regarding findings on risk management?
(A) Almost all banks recognized the urgency of the climate risk issue.
(B) Most banks considered climate-related financial risks to be a material threat to their business.
(C) Physical and transition risks were seen as minor sources of climate-related risks.
(D) Some banks are focusing on social and governance aspects while evaluating large credit proposals.

NODIA

May/June 2024

30. What is the fundamental rationale behind banks launching new loan products in the context of sustainable finance?
(A) To recover losses from stressed and non-performing banking assets
(B) To exploit potential regulatory loopholes in domestic environmental laws
(C) To increase exposure to high-yield and high-carbon industrial sectors
(D) To tap the opportunities arising from climate change

Oct/Nov 2008

31. Based on the logical progression of integrating climate risk, arrange the following steps from basic recognition to implementation.
I. Recognizing the urgency of climate-related financial risks
II. Considering social and governance aspects for large credit proposals
III. Attempting to quantify the susceptible amount of the loan and investment portfolio
(A) III, II, I
(B) I, II, III
(C) II, I, III
(D) I, III, II

May/June 2006

32. Which of the following pairs of 'Term' and its context is incorrectly matched?
(A) Physical risks — Main source of climate-related risk
(B) COP26 Summit — Commitment to maximize high-carbon exposure
(C) Transition risks — Main source of climate-related risk
(D) SFG — Group that carried out the climate risk survey

Oct/Nov 2017

33. Why is it most appropriate for banks to invest significantly in the capacity building of their staff?

(D) P-1, Q-4, R-3, S-2

Oct/Nov 2005

59. Consider the following statements:
I. The Sustainable Finance Group carried out a climate risk survey in January 2022.
II. The report on the survey results was published in July 2022.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

May/June 2017

60. Match the key terms or dates in List I with their associated events in List II.
List I: (Terms/Dates)
P. January 2022
Q. July 2022
R. Next 12 months
S. COP26
List II: (Events)
1. Report on the Survey on Climate Risk published
2. Summit where India made a net-zero commitment
3. Survey carried out by Sustainable Finance Group
4. Period over which a roadmap to carbon neutrality is planned
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Oct/Nov 2024

61. Consider the following statements related to sustainable finance strategies:
I. Embedding ESG principles requires a dedicated strategy, which only a few banks possess.
II. Most banks have decided to increase exposure to high-carbon businesses.
III. Mobilizing new capital is suggested to scale up green lending.
IV. Transition to a green future offers opportunities for incremental lending.
V. Launching green deposits helps scale up lending to environment-friendly businesses.
Which of the above statements is/are correct?
(A) Only I, II, III, and IV
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) I, II, III, IV, and V

May/June 2012

62. Assertion (A): Banks require dedicated resources to successfully tap the opportunities arising from climate change.
Reason (R): Banks need to invest significantly in the capacity building of their staff on climate risk, ESG, and sustainable finance.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

63. Consider the following statements regarding HR and capacity building:
I. Most banks are looking at capacity building to better understand financial implications of climate risk.
II. Banks need to invest significantly in capacity building of their staff.
III. Capacity building should focus exclusively on digital banking rather than ESG.
IV. Banks will require dedicated resources to tap sustainable finance opportunities.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only II, III, and IV
(C) Only I, II, and IV
(D) I, II, III, and IV

May/June 2019

64. The potential regulatory restrictions on Delta Bank's manufacturing clients due to high emissions represent which type of risk?
(A) Physical risk
(B) Liability risk
(C) Transition risk
(D) Reputational risk

Oct/Nov 2018

65. Assertion (A): Feedback from climate risk surveys helps in shaping the regulatory and supervisory approach of the central bank.

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related KPIs in the performance evaluation of their top management.

Which of the statements given above is/are correct?

(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2023

40. Match the proportion of banks in List I with the corresponding observation in List II.

List I: (Proportion of Banks)

P. A majority of the banks
Q. About a third of the banks
R. A few banks
S. Most banks

List II: (Observations)

1. Did not have a separate business unit or vertical for sustainability
2. Have launched a few loan products to tap opportunities
3. Responsibility for overseeing initiatives was yet to be assigned
4. Have announced time-bound plans to become carbon-neutral

(A) P-1, Q-2, R-4, S-3
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-3, R-1, S-2

May/June 2013

41. Consider the following statements regarding moving towards a low-carbon environment:

I. Banks could come out with a strategy to reduce emissions from their own operations.
II. Banks may consider working on a timeline to move towards net-zero emissions.
III. These actions are in line with India's commitment at the COP26 Summit.

Which of the above statements is/are correct?

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2016

42. What is the best method suggested for banks to reduce absolute carbon emissions arising from their operations?

(A) Closing down physical branches and moving entirely to digital banking
(B) Purchasing carbon credits without changing operational energy sources
(C) Increasing renewable energy in total sourced electricity
(D) Restricting banking operations to daylight hours only

Oct/Nov 2018

43. Which of the following pairs of 'Suggestion Category' and 'Specific Recommendation' is correctly matched?

(A) Governance — Mobilize new capital for green lending
(B) Human Resources — Require dedicated resources to tap opportunities
(C) Opportunities from transition — Develop a strategy for integrating risk
(D) Risk management — Include KPIs in performance evaluation

May/June 2024

44. Match the operational goal in List I with the corresponding method in List II.

List I: (Operational Goal)

P. Decrease absolute carbon emissions
Q. Transition to low-carbon exposure
R. Move towards net-zero emissions
S. Capacity building

List II: (Method)

1. Gradually reduce exposure to high-carbon emitting businesses
2. Increase the proportion of renewable energy in sourced electricity
3. Better understand the financial implications of climate risk
4. Work on a timeline in line with India's commitment at COP26

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-1, R-2, S-3

Oct/Nov 2021

45. Consider the following statements regarding climate-related financial disclosures:

I. A majority of the banks have aligned their disclosures with internationally accepted frameworks.
II. Aligning disclosures with international frameworks improves consistency.
III. Aligning disclosures globally improves the comparability of the disclosures.

NODIA

May/June 2005

16. The survey on climate risk and sustainable finance was carried out by which group within the Reserve Bank of India?
(A) Sustainable Finance Group (SFG)
(B) Strategic Finance Group (SFG)
(C) Sustainable Funding Group (SFG)
(D) Supervisory Finance Group (SFG)

Oct/Nov 2014

17. Which of the following statements is incorrect regarding Human Resources and capacity building?
(A) Most banks feel that their current staff is already fully equipped to handle climate risk implications without further training.
(B) Banks need to invest significantly in capacity building of their staff.
(C) Capacity building should cover climate risk, ESG, and sustainable finance.
(D) Banks will require dedicated resources to tap opportunities arising from climate change.

May/June 2018

18. The survey on climate risk and sustainable finance was conducted primarily among which category of banks?
(A) Scheduled Commercial Banks
(B) Regional Rural Banking Institutions
(C) Urban and State Cooperative Banks
(D) Private Sector Local Area Banks

Oct/Nov 2016

19. Which of the following statements correctly identifies the types of risks banks need to fully grasp associated with climate risk?
(A) Operational, reputational, and liquidity risks
(B) Market, credit, and systemic risks
(C) Strategic, compliance, and cyber risks
(D) Physical, transition, and liability risks

May/June 2014

20. What approach are most banks taking towards businesses that are high-carbon emitting or polluting?
(A) Deciding to gradually reduce their exposure in the coming years
(B) Rapidly increasing their exposure to maximize short-term yields
(C) Maintaining their current exposure levels without further expansion
(D) Immediately terminating all existing credit facilities

Oct/Nov 2007

21. Regarding actions towards a low-carbon environment, which of the following was an action taken or planned by only a "few" banks, as opposed to "most" banks?
(A) Considering climate-related financial risks to be a material threat to their business
(B) Deciding to gradually reduce exposure to polluting businesses
(C) Announcing time-bound plans to become carbon-neutral
(D) Launching a few loan products to tap climate change opportunities

May/June 2025

22. In which month and year was the survey carried out to assess the status of climate risk in banks?
(A) January 2021
(B) January 2022
(C) July 2021
(D) July 2022

Oct/Nov 2011

23. What is the primary purpose of gathering feedback through a survey on climate risk and sustainable finance?
(A) To impose immediate financial penalties for non-compliant banking entities
(B) To rank all commercial banks based on their specific annual carbon footprint
(C) To mandate the immediate closure of high-carbon emitting business sectors
(D) To help in shaping the regulatory approach of the central bank

May/June 2010

24. Which of the following statements is incorrect regarding the transition to low-carbon exposure?
(A) Most banks plan to gradually reduce exposure to high-carbon emitting businesses.
(B) A few banks have launched green deposits to scale up lending to environment-friendly businesses.
(C) Most banks have launched a few loan products to tap opportunities from climate change.
(D) No bank has attempted to mobilize new capital to scale up green lending.

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II. RBI Survey conducted by SFG
III. Publication of the Report on the Survey
IV. Suggested timeframe for banks to come up with a roadmap for carbon neutrality
(A) I, II, III, IV
(B) II, I, III, IV
(C) I, III, II, IV
(D) II, III, I, IV

Oct/Nov 2013

53. Match the risk types or concepts in List I with their context in List II.
List I: (Risk/Concept)
P. Physical and transition risks
Q. Liability risks
R. Social and governance aspects
S. Climate-related financial risks
List II: (Context)
1. Focused on while evaluating credit proposals above a certain amount
2. Seen as the main sources of climate-related risks
3. Considered to be a material threat to the business by most banks
4. Needs to be fully grasped along with physical and transition risks
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-1, R-4, S-3

May/June 2006

54. Consider the following statements regarding transition opportunities:
I. A few banks have mobilized new capital to scale up green lending.
II. Most banks have launched green deposits to fund environment-friendly businesses.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2017

55. Which of the following pairs of 'Bank Action' and 'Proportion of Banks' is correctly matched?
(A) Considered climate-related financial risks a material threat — Most banks
(B) Included KPIs in top management evaluation — Majority of banks
(C) Aligned disclosures with internationally accepted framework — Almost all banks
(D) Announced time-bound plans to become carbon-neutral — About a third of banks

May/June 2022

56. What is the most significant hurdle identified by banks regarding the assessment of climate-related financial risks?
(A) Insufficient data and undeveloped methodologies
(B) Excessive regulatory interference from the central government
(C) Lack of interest from large corporate and industrial clients
(D) Overabundance of conflicting international reporting frameworks

Oct/Nov 2023

57. Consider the following statements regarding Risk Management observations:
I. Almost all surveyed banks recognized the urgency of the climate risk issue.
II. Physical and transition risks were seen as the main sources of climate-related risks.
III. No bank has attempted to quantify the amount of their loan portfolio susceptible to climate risks.
Which of the above statements is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

May/June 2013

58. Match the area of suggestion in List I with the specific recommended action in List II.
List I: (Suggestion Area)
P. Governance
Q. Risk management
R. Climate-related financial disclosures
S. Human Resources
List II: (Recommended Action)
1. Align with an internationally accepted framework
2. Invest significantly in capacity building
3. Include KPIs as part of performance evaluation
4. Grasp physical, transition, and liability risks
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2

NODIA

aspects are evaluated by some banks for large credit proposals.
III. Green deposits have been launched by most banks.
IV. Data required for appropriate assessment of climate risks was deemed insufficient by most banks.

Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, II, and IV
(C) Only II, III, and IV
(D) Only I, III, and IV

Oct/Nov 2011

73. Assertion (A): Only a few banks are attempting to quantify the amount of their loan and investment portfolio that is susceptible to climate risks.
Reason (R): Almost all banks recognized the urgency of the climate risk issue and considered it a material threat.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2010

74. Assertion (A): Banks need to align their climate-related financial disclosures with internationally accepted frameworks.
Reason (R): Alignment with international frameworks improves the comparability and consistency of disclosures with their counterparts globally.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

75. Consider the following statements on risk and data management:
I. Liability risks must be fully grasped alongside physical and transition risks.
II. Attempting to quantify susceptible loan portfolios is currently done by a few banks.
III. Process methodologies for measuring climate risks are well-developed in most banks.
IV. Available data was felt to be insufficient by most banks.
V. Integrating climate risk into the existing risk management framework is highly recommended.

Which of the above statements is/are correct?
(A) Only I, II, IV, and V
(B) Only I, III, IV, and V
(C) Only II, III, IV, and V
(D) Only I, II, III, and V

May/June 2017

76. Consider the following statements regarding bank operations:
I. Most banks have plans to decrease absolute carbon emissions.
II. Most banks plan to increase the proportion of renewable energy.
III. A few banks announced plans to become carbon-neutral over the next 12 months.
IV. Moving towards net-zero emissions contradicts India's COP26 commitments.

Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only II, III, and IV
(C) Only I, II, and IV
(D) I, II, III, and IV

Oct/Nov 2005

77. The failure of Omega Bank to assign responsibility for overseeing climate risk initiatives is a condition observed in approximately what proportion of banks?
(A) About a half
(B) About a fourth
(C) About two-thirds
(D) About a third

May/June 2020

78. Consider the following statements regarding findings in the banking sector:
I. A climate risk survey was conducted in January 2022.
II. Board-level engagement on climate risk was found to be generally adequate across all banks.
III. Almost all banks consider climate-related

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Reason (R): Surveys are carried out exclusively to impose immediate financial penalties on banks with high carbon emissions.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2005

66. To build a robust strategy, Delta Bank should attempt to integrate climate change risks into its:
(A) Existing risk management framework
(B) Human resources recruitment policy
(C) Corporate social responsibility mandate
(D) Digital marketing and outreach strategy

Oct/Nov 2014

67. Consider the following statements regarding governance and disclosures:
I. Banks need a mechanism at the Board or top management level for overseeing ESG initiatives.
II. KPIs on climate risk should be excluded from top management evaluations to prevent bias.
III. Banks must grasp physical, transition, and liability risks.
IV. Aligning disclosures globally improves comparability.
Which of the above statements is/are correct?
(A) Only I, II, and III
(B) Only I, III, and IV
(C) Only II, III, and IV
(D) I, II, III, and IV

May/June 2018

68. Assertion (A): Banks should consider working on a timeline to move towards net-zero emissions.
Reason (R): India made a significant commitment regarding emissions at the COP26 Summit.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2016

69. To rectify the appraisal process for its top executives, what specific metric is suggested for Omega Bank to introduce?
(A) Key Performance Indicators (KPIs) related to ESG
(B) Return on Asset (RoA) thresholds for green projects
(C) Carbon emission deduction quotas
(D) Liability risk quantifiers

May/June 2014

70. Consider the following statements regarding low-carbon operations and governance:
I. Decreasing absolute carbon emissions is a goal for most banks.
II. A roadmap over the next 12 months for carbon neutrality was planned by a few banks.
III. Top management evaluation should ideally include KPIs on climate risk.
IV. Board oversight is critical for scaling up sustainability initiatives.
V. Banks should establish separate verticals for sustainability to bridge current gaps.
Which of the above statements is/are correct?
(A) Only I, II, III, and IV
(B) Only II, III, IV, and V
(C) Only I, III, IV, and V
(D) I, II, III, IV, and V

Oct/Nov 2007

71. Sigma Bank aims to publish a roadmap to reach a state where their net carbon emissions are zero. This target to reach net-zero emissions is in line with India's commitment at which global event?
(A) COP26 Summit
(B) Paris Agreement 2015
(C) G20 Summit
(D) World Economic Forum

May/June 2025

72. Consider the following statements regarding industry observations:
I. Survey feedback will help shape regulatory approaches to climate risk.
II. Environmental, social, and governance

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(A) To comply with generic human resource regulations of the sector
(B) To tap the opportunities arising from climate change
(C) To prepare staff for transitions into non-banking financial sectors
(D) To reduce the operational costs associated with external hiring

May/June 2008

34. Consider the following statements regarding data and methodologies:
I. Most banks felt that available data was insufficient for an appropriate assessment of climate-related risks.
II. Methodologies to measure and monitor climate-related financial risks were found to be sufficiently developed.
Which of the statements given above is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Oct/Nov 2013

35. Match the strategic action in List I with its intended purpose in List II.
List I: (Strategic Action)
P. Launching green deposits
Q. Mobilizing new capital
R. Integrating climate risk into frameworks
S. Aligning disclosures internationally
List II: (Purpose)
1. To make loan and investment portfolios more resilient
2. To scale up green lending and investment
3. To improve comparability and consistency with global counterparts
4. To scale up lending to environment-friendly businesses
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-3, Q-2, R-1, S-4

May/June 2015

36. Consider the following statements regarding the transition to low-carbon exposure:
I. Most banks have decided to gradually reduce exposure to high-carbon emitting businesses.
II. A few banks set a target for incremental lending and investment for sustainable finance.
III. Most banks have launched a few loan products to tap opportunities from climate change.
Which of the above statements is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

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May/June 2011

37. What is the most appropriate description of the current state of Board-level engagement on climate risk and sustainable finance in the banking sector?
(A) Inadequate in about a third of the surveyed banks
(B) Highly proactive and standardized across all regional branches
(C) Fully integrated with robust KPIs for all executive levels
(D) Non-existent in all scheduled commercial banking institutions

Oct/Nov 2020

38. Match the banking action in List I with the proportional descriptive term in List II.
List I: (Banking Action)
P. Recognized the urgency of the issue
Q. Did not have a separate ESG business unit
R. Launched green deposits
S. Decided to gradually reduce exposure to polluting businesses
List II: (Proportion)
1. Majority of the banks
2. Almost all banks
3. Most banks
4. A few banks
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

May/June 2022

39. Consider the following statements regarding Board-level engagement:
I. In about a third of the banks surveyed, responsibility for overseeing climate risk initiatives was yet to be assigned.
II. A majority of banks have included ESG-

risks a material threat.
IV. Physical and transition risks are the main sources of climate-related risks.
V. A majority of banks have aligned their disclosures internationally.

Which of the above statements is/are correct?
(A) Only I, III, and IV
(B) Only I, II, and V
(C) Only II, III, and IV
(D) Only I, IV, and V

Oct/Nov 2021

79. Assertion (A): A majority of banks had a separate business unit or vertical for sustainability and ESG-related initiatives.
Reason (R): Only a few banks had a strategy for embedding ESG principles in their business.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2024

80. Assertion (A): Most banks felt that available data was completely sufficient for an appropriate assessment of climate-related financial risks.
Reason (R): Processes and methodologies to measure and monitor climate-related financial risks were insufficiently developed.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

81. Sigma Bank decides to reduce the absolute carbon emissions arising from its daily operations. They plan to switch 40% of their electricity consumption to solar power. This initiative aligns directly with the objective to increase the proportion of:
(A) Low-cost industrial electricity
(B) Off-grid power storage solutions
(C) Renewable energy in sourced electricity
(D) Captive thermal power plants

May/June 2006

82. Consider the following statements regarding findings in the banking sector:
I. A climate risk survey was conducted in January 2022.
II. Board-level engagement on climate risk was found to be generally adequate across all banks.
III. Almost all banks consider climate-related risks a material threat.
IV. Physical and transition risks are the main sources of climate-related risks.
V. A majority of banks have aligned their disclosures internationally.

Which of the above statements is/are correct?
(A) Only I, III, and IV
(B) Only I, II, and V
(C) Only II, III, and IV
(D) Only I, IV, and V

Oct/Nov 2017

83. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the appropriate option.
Assertion (A): There remains a need for concerted effort and further action in the area of climate risk in the banking sector.
Reason (R): Board-level engagement on climate risk and sustainable finance was found to be inadequate across several leading scheduled commercial banks.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2008

84. If Omega Bank appoints a committee to oversee sustainability at the highest level, it is directly fulfilling a key suggestion related to:
(A) Capacity building
(B) Transition to low-carbon exposure
(C) Governance
(D) Climate-related financial disclosures

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32. (B) COP26 Summit — Commitment to maximize high-carbon exposure.
The COP26 Summit was a global forum where India and other nations committed to reducing carbon emissions and transitioning to sustainable energy. A commitment to maximize high-carbon exposure would directly contradict the goals of this summit and national environmental policies. Instead, the summit emphasized achieving net-zero targets and phasing down reliance on fossil fuels to mitigate the impacts of climate change.

33. (B) To tap the opportunities arising from climate change.
Investing in staff capacity building is essential because it equips bank employees with the knowledge needed to identify and evaluate green business opportunities. Understanding the complexities of sustainable finance allows the workforce to effectively support clients in their transition to low-carbon operations. This specialized expertise is a key driver for banks looking to grow their market share in the sustainable sector.

34. (A) Only I.
While most banks acknowledge that the available data for assessing climate risks is currently insufficient, the methodologies to measure and monitor these risks are also largely seen as being in early development stages. Therefore, claiming that methodologies are already sufficiently developed is incorrect. The industry still requires significant advancements in both data quality and analytical techniques to effectively manage climate-related financial vulnerabilities.

35. (A) P-4, Q-2, R-1, S-3.
Banks launch green deposits to scale up lending to environment-friendly businesses, while mobilizing new capital is aimed at increasing green lending and investment overall. Integrating climate risks into existing frameworks serves to make portfolios more resilient against environmental shocks. Finally, aligning disclosures with international standards is intended to improve the comparability and consistency of financial reporting with global banking peers.

36. (D) I, II, and III.
All three statements accurately reflect current trends in the banking sector's transition. Many banks have decided to reduce their exposure to high-polluting businesses over time. Additionally, a few institutions have set specific targets for incremental sustainable lending, while most have begun introducing initial loan products designed to capitalize on the growing demand for green financing and climate-resilient projects.

37. (A) Inadequate in about a third of the surveyed banks.
Assessment findings indicate that board-level engagement regarding climate risk is still developing and was considered inadequate in approximately one-third of the banks surveyed. This lack of oversight often means that sustainability goals are not yet a priority at the highest strategic levels. Improving this engagement is crucial for ensuring that environmental considerations are effectively integrated into the bank's long-term planning.

38. (A) P-2, Q-1, R-4, S-3.
Almost all banks have recognized the urgency of climate risk, while a majority still lack a separate business unit for ESG initiatives. Most banks have committed to gradually reducing their exposure to polluting businesses, reflecting a significant industry shift. However, only a few banks have progressed far enough to launch specific green deposits, indicating that such specialized products are not yet commonplace.

39. (A) Only I.
While it is true that about one-third of banks have yet to assign responsibility for overseeing climate initiatives, it is incorrect to say a majority have included ESG KPIs in executive evaluations. In reality, most banks are still in the process of developing these performance metrics. Significant progress is still needed to ensure that senior management is held accountable for environmental goals.

NODIA

40. (B) P-1, Q-3, R-4, S-2.
A majority of banks currently lack a separate vertical for sustainability, while about a third have yet to assign clear responsibility for these initiatives. Most banks have introduced a few loan products to capture climate-related

(B) Low-carbon exposure
(C) High-yield exposure
(D) Sovereign exposure

Oct/Nov 2012

92. Read the following scenario regarding data and capacity building and answer the questions that follow.
Alpha Bank wants to publish its sustainability report. However, the risk team realizes their current data is inadequate to accurately assess climate-related financial risks, and staff lacks expertise because required processes are undeveloped. The inadequacy of data faced by Alpha Bank is a challenge identified primarily under:
(A) Corporate Governance initiatives
(B) Long-term Strategic planning
(C) Capacity building and data gaps
(D) Financial disclosure reporting

May/June 2016

93. What specific timeframe is recommended for banks planning to come up with a roadmap to become carbon-neutral?
(A) Over the next 6 months
(B) Over the next 24 months
(C) By the end of the current financial year
(D) Over the next 12 months

Oct/Nov 2009

94. Beta Bank's target to increase its green lending portfolio over the next three years is an example of setting a target for:
(A) Total absolute asset growth targets
(B) Statutory liquidity ratios of the bank
(C) Incremental lending for sustainable finance
(D) Priority sector lending growth targets

May/June 2023

95. To ensure Alpha Bank's sustainability report is comparable and consistent globally, it is suggested that they align their disclosures with:
(A) An internationally accepted framework
(B) Local regulatory draft guidelines
(C) Peer competitors' internal reports
(D) The bank's internal legacy policies

Oct/Nov 2018

96. Sigma Bank's efforts to reduce emissions from its own branches fall under which specific area of action?
(A) Transitioning to low-carbon credit exposure
(B) Moving towards low-carbon operations
(C) Global climate-related financial disclosures
(D) Capacity building and addressing data gaps

May/June 2007

97. The specific new deposit scheme introduced by Beta Bank to scale up lending to environment-friendly businesses is referred to as:
(A) Green deposits
(B) Eco-bonds
(C) Sustainable deposits
(D) Carbon-neutral deposits

Oct/Nov 2025

98. The undeveloped nature of processes and methodologies at Alpha Bank for measuring climate risk reflects an observation shared by what proportion of banks?
(A) Almost all banks
(B) Most banks
(C) A few banks
(D) A third of the banks

May/June 2012

99. What must Alpha Bank do to overcome the lack of staff expertise according to industry suggestions?
(A) Recruit only from specialized environmental and sustainability institutes
(B) Outsource all climate risk assessment to external management consultants
(C) Reassign top management to operational and environmental oversight roles
(D) Invest significantly in the capacity building of the bank staff

Oct/Nov 2014

100. By introducing combined initiatives (reducing polluting loans, launching new deposits, setting targets), Beta Bank is effectively acting on the suggestion to tap the opportunities arising from:
(A) Interest rate fluctuations
(B) Digital banking transformations
(C) Cross-border mergers
(D) Transition to a green future

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ANSWERS

1. (D) Department of Regulation (DoR)
The Sustainable Finance Group is a dedicated unit established within the Reserve Bank of India's Department of Regulation. This group was specifically created to lead regulatory initiatives concerning climate-related financial risks and sustainable finance. Its primary role involves formulating policies that encourage the banking sector to align with global sustainability standards while maintaining domestic financial stability and environmental awareness.

2. (C) They were not sufficiently developed.
Methodologies for measuring and monitoring climate-related financial risks are currently in the early stages of development across the banking sector. Most financial institutions have found that existing processes are not yet robust or standardized enough for precise application. This lack of development hinders the ability of banks to accurately quantify potential losses from environmental factors, necessitating further analytical refinement.

3. (C) Key Performance Indicators
Key Performance Indicators serve as quantifiable measures used to evaluate the success of an organization or employee in meeting strategic goals. In sustainable finance, integrating climate risk and environmental objectives into these indicators for top management ensures accountability. This approach encourages leadership to prioritize long-term sustainability alongside traditional financial metrics, fostering a culture of environmental responsibility within the banking institution.

4. (C) Almost all banks have successfully quantified the exact monetary value of their climate-susceptible portfolios.
While a few pioneering institutions are attempting to estimate the vulnerability of their portfolios to climate-related factors, the majority have not yet reached this level of precision. Significant challenges, such as data gaps and evolving methodologies, prevent most banks from successfully quantifying the exact monetary value of climate-susceptible assets. Most current efforts remain qualitative rather than fully quantitative or standardized.

5. (B) To improve the comparability of disclosures with global counterparts.
Adopting internationally accepted disclosure frameworks allows banks to provide financial information that is consistent and comparable across different jurisdictions. This transparency is crucial for global investors and regulators who need to assess climate-related risks on a standardized basis. Such alignment helps maintain market discipline and ensures that domestic banking practices meet the growing expectations of the international financial community.

6. (B) Rejecting all proposals from the manufacturing sector.
Banks typically evaluate large credit proposals by scrutinizing various risks, including environmental, social, and governance factors. However, there is no industry-wide practice involving the blanket rejection of entire sectors like manufacturing. Instead, banks focus on assessing the specific climate-related financial risks and sustainability practices of individual borrowers. The primary goal is to manage risk exposure rather than eliminate sector-specific lending.

7. (B) Environmental, Social and Governance
The acronym ESG stands for Environmental, Social, and Governance. These three pillars serve as a framework for evaluating the sustainability and ethical impact of an investment or business operation. Environmental factors consider nature conservation, social factors examine relationship management with employees and communities, and governance deals with leadership and internal controls. Together, they guide responsible and sustainable financial decision-making.

NODIA

8. (B) Only a few banks had a strategy for embedding ESG principles in their business.
Despite the growing importance of sustainability, only a small number of banking institutions have formulated a comprehensive strategy to integrate environmental, social, and governance principles into their core business operations. Many banks still operate without a dedicated sustainability unit or a clear roadmap for addressing climate-related financial risks. This highlights a significant area for future development and strategic organizational alignment.

9. (B) A majority of banks have successfully aligned their disclosures with internationally accepted frameworks.
Currently, the majority of banks have not yet aligned their climate-related financial disclosures with internationally recognized frameworks. While such alignment is highly recommended to improve consistency and comparability across the global financial market, actual implementation remains limited to a few institutions. Most banks are still in the process of developing the necessary reporting structures to meet these rigorous international standards.

10. (C) Data was insufficient for an appropriate assessment.
A major obstacle for banks attempting to evaluate climate-related financial risks is the lack of high-quality, granular data. The general consensus among financial institutions is that the currently available information is insufficient for conducting thorough and appropriate risk assessments. Without reliable data on both physical and transition risks, banks struggle to model potential impacts on their portfolios with high accuracy.

11. (D) Investing in legacy high-carbon technologies.
The shift toward a green economy presents various opportunities, such as mobilizing capital for renewable energy and expanding sustainable lending portfolios. Conversely, continuing to invest in legacy high-carbon technologies is viewed as a risk rather than a strategic opportunity. Such investments are increasingly susceptible to transition risks, including regulatory changes and shifting market preferences, which could lead to stranded assets.

12. (C) The COP26 Summit.
India's national commitment to achieving net-zero emissions was prominently announced during the COP26 Summit held in Glasgow. This pledge serves as a critical benchmark for various sectors, including banking, to align their long-term operational strategies with national climate goals. Banks are now encouraged to develop time-bound roadmaps to reduce their carbon footprints in support of this international commitment.

13. (A) Most banks plan to increase the proportion of renewable energy in their total sourced electricity.
To reduce their operational carbon footprint, a significant number of banks are prioritizing the use of renewable energy. This involves increasing the share of solar, wind, or other clean energy sources in their total electricity consumption. Such measures are part of a broader industry trend toward adopting sustainable practices and achieving carbon neutrality in day-to-day banking activities over time.

14. (C) By integrating climate risk into the existing risk management framework.
Rather than creating a separate or parallel system, banks are expected to embed climate-related financial risks into their established risk management frameworks. This integration ensures that environmental factors are considered alongside traditional risks like credit, market, and operational risk. A holistic approach allows the board and senior management to view climate vulnerability as a core component of financial stability.

15. (D) Mandate the immediate resignation of board members failing to meet ESG targets.
Suggested governance improvements focus on structural changes, such as establishing board-level oversight for sustainability and including performance indicators for top management. Mandating the immediate resignation of board members is not a standard regulatory recommendation. Instead, the emphasis is on capacity building, strategic alignment, and the gradual integration of environmental, social, and governance considerations into the existing leadership framework.

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49. (A) Expanding high-carbon emitting business exposure — Moving towards a low-carbon environment.
Expanding exposure to high-carbon emitting businesses is fundamentally at odds with the goal of moving toward a low-carbon environment. Such a strategy increases vulnerability to transition risks and contradicts national and international climate objectives. A true low-carbon transition involves reducing reliance on polluting sectors and increasing support for sustainable, environment-friendly activities through initiatives like green deposits and renewable energy sourcing.

50. (A) P-2, Q-4, R-1, S-3.
The lack of a separate vertical for sustainability is a strategic deficiency, while insufficient data is a primary hurdle for capacity building and risk assessment. Failing to assign clear oversight responsibility is a governance gap occurring at the board level. Finally, the absence of alignment with international reporting frameworks is a specific issue within the area of climate-related financial disclosures.

51. (A) Only I and II.
It is crucial for banks to fully understand physical, transition, and liability risks and to actively manage them to ensure portfolio resilience. However, the third statement is incorrect because the recommendation is to integrate climate risk management into the existing risk framework, not to develop a separate, disconnected strategy. Integration ensures a holistic view of the bank's total risk profile.

52. (A) I, II, III, IV.
The process began with national commitments at the COP26 Summit, followed by the SFG conducting a survey in early 2022. The results were then published in a report in July 2022. Finally, based on these findings, banks were suggested to develop roadmaps for carbon neutrality within a future timeframe, representing the ongoing implementation phase of the sustainable finance strategy.

53. (A) P-2, Q-4, R-1, S-3.
Physical and transition risks are identified as the main sources of climate risk, while liability risks must also be understood. Social and governance aspects are increasingly being evaluated alongside environmental factors for large credit proposals. Finally, climate-related financial risks are broadly recognized by most banking institutions as a material threat to their long-term business stability and financial performance.

54. (A) Only I.
While a few pioneering banks have successfully mobilized new capital to increase their green lending capacity, the second statement is incorrect. Most banks have not yet launched green deposits; this product is currently offered by only a small number of institutions. Scaling up these initiatives remains a key objective for the banking sector to fully capitalize on green transition opportunities.

55. (A) Considered climate-related financial risks a material threat — Most banks.
A significant majority of banks acknowledge that climate-related financial risks pose a material threat to their business operations. However, other pairs are incorrectly matched because most banks have not yet included ESG KPIs in evaluations, nor have they aligned disclosures internationally. Furthermore, only a small number of banks, rather than a third, have announced specific time-bound plans for achieving carbon neutrality.

NODIA

56. (A) Insufficient data and undeveloped methodologies.
The most critical challenges preventing banks from accurately assessing climate-related risks are the lack of granular data and the absence of mature analytical methodologies. Without these tools, it is difficult for institutions to model the financial impact of environmental factors on their portfolios. Overcoming these hurdles is essential for developing robust risk management strategies and making informed sustainable lending decisions.

57. (A) Only I and II.
Almost all banks recognize the urgency of climate risk and identify physical and transition risks as the primary sources of concern. However, the third statement is incorrect because some banks are already attempting to quantify the portion of their loan portfolios susceptible to these risks.

24. (D) No bank has attempted to mobilize new capital to scale up green lending.
Contrary to the idea that no action has been taken, some pioneering banks have already begun to mobilize new capital specifically for scaling up green lending and investments. While these efforts may not yet be industry-wide, they represent a significant step toward supporting environment-friendly businesses. Banks are increasingly recognizing the potential for growth and risk mitigation in the green sector.

25. (B) In about a third of banks, responsibility for overseeing related initiatives was yet to be assigned.
A significant finding in the assessment of corporate governance is that approximately one-third of surveyed banks have not yet assigned specific responsibility for overseeing climate-related initiatives to any board member or senior executive. This gap suggests that sustainability is not yet fully integrated into the highest levels of decision-making in many institutions, highlighting a need for stronger governance structures.

26. (D) To scale up lending to environment-friendly businesses.
Green deposits are a specialized financial product designed to raise funds specifically for environment-friendly projects. Banks use the capital gathered through these deposits to provide loans for initiatives such as renewable energy, energy efficiency, and sustainable agriculture. This mechanism allows depositors to support environmental causes while enabling the bank to grow its sustainable finance portfolio and support a green transition.

27. (A) Reputational risks.
While reputational issues can certainly arise from environmental practices, the primary categories of climate-related financial risks identified for banks to grasp are physical, transition, and liability risks. Physical and transition risks are considered the main sources of financial impact, while liability risks involve legal consequences. Regulatory focus is primarily on these direct financial channels rather than the broader category of reputational risk.

NODIA

28. (A) July 2022.
Following the data collection phase early in the year, the official report summarizing the survey findings on climate risk and sustainable finance was published in July 2022. This document provided a detailed analysis of the banking sector's current status and identified key areas requiring improvement. It served as a vital resource for stakeholders to understand the industry's environmental readiness and strategic progress.

29. (C) Physical and transition risks were seen as minor sources of climate-related risks.
Most banking institutions recognize physical and transition risks as the primary and most significant sources of climate-related financial risks. Physical risks stem from the impact of weather events, while transition risks arise from shifts toward a sustainable economy. Viewing these as minor would be inaccurate, as they have the potential to cause substantial financial disruption across various loan and investment portfolios.

30. (D) To tap the opportunities arising from climate change.
The introduction of new sustainable loan products is driven by the desire of banks to capture emerging opportunities in the green economy. As businesses and consumers transition toward more sustainable practices, there is an increasing demand for financing projects related to renewable energy and efficiency. Banks aim to support this transition while diversifying their portfolios and securing long-term growth.

31. (B) I, II, III.
Integrating climate risk typically follows a logical path starting with recognizing the urgency of the issue. Once the risk is acknowledged, banks begin incorporating qualitative factors, such as social and governance aspects, into their credit evaluations for large proposals. The most advanced stage involves developing quantitative methods to estimate the specific amount of the portfolio that is susceptible to climate-related vulnerabilities.

Oct/Nov 2013

85. Assertion (A): A few banks have launched green deposits.
Reason (R): Green deposits are primarily used to gradually increase exposure to high-carbon emitting businesses.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2015

86. In the context of Delta Bank's portfolio, the damage to the assets of its agricultural clients due to extreme weather events is classified as:
(A) Transition risk
(B) Physical risk
(C) Systemic risk
(D) Governance risk

May/June 2011

87. Consider the following statements regarding bank strategies:
I. A majority of banks had a separate business unit for sustainability.
II. A majority of banks did not have a separate vertical for ESG-related initiatives.
III. Only a few banks had a strategy for embedding ESG principles in their business.
IV. Only a few banks were incorporating climate change risks into existing risk management.
Which of the above statements is/are correct?
(A) Only I, III, and IV
(B) Only II, III, and IV
(C) Only I and II
(D) Only III and IV

Oct/Nov 2020

88. Consider the following statements regarding climate risk takeaways:
I. Concerted effort and further action are needed despite banks taking initial steps.
II. Supervisory approaches will be shaped by survey feedback.
III. Social and governance aspects are entirely ignored during credit evaluations.
IV. Comparability of global disclosures relies on internationally accepted frameworks.
V. India's COP26 commitment drives the timeline for net-zero emissions.
Which of the above statements is/are correct?
(A) Only I, II, III, and V
(B) Only I, II, IV, and V
(C) Only II, III, IV, and V
(D) Only I, III, IV, and V

May/June 2022

89. Omega Bank is a leading scheduled commercial bank. The Board of Directors realizes that currently, no specific executive has been tasked with overseeing sustainability, and the annual appraisals of top executives do not reflect any environmental goals. Furthermore, the bank lacks a dedicated vertical for ESG. Based on typical industry observations, Omega Bank's lack of a dedicated vertical for ESG places it in which category of banks?
(A) A minority of banking institutions
(B) A majority of the banks
(C) Almost all commercial banks
(D) Only a few specific banks

Oct/Nov 2023

90. Assertion (A): Banks need to align their climate-related financial disclosures with internationally accepted frameworks.
Reason (R): Alignment with international frameworks improves the comparability and consistency of disclosures with their counterparts globally.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2013

91. Read the following scenario regarding green initiatives and answer the questions that follow.
Beta Bank decides to gradually reduce its loans to highly polluting industries. To offset this, the bank introduces a new deposit scheme aimed at funding environment-friendly businesses and sets targets to increase green lending over three years. The decision of Beta Bank to reduce loans to polluting industries represents a transition to:
(A) Zero-risk exposure

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opportunities. In contrast, only a small number of banks have reached the stage of announcing formal, time-bound plans to achieve carbon neutrality in their operations.

41. (D) I, II, and III.
Banks are encouraged to develop strategies for reducing their operational emissions and to establish timelines for reaching net-zero status. These actions are directly supportive of India's international commitments, particularly those made at the COP26 Summit. Collectively, these steps help the banking sector contribute to national climate goals while managing its own environmental impact and enhancing long-term operational sustainability.

42. (C) Increasing renewable energy in total sourced electricity.
The most effective and recommended way for banks to lower their absolute carbon emissions is by transitioning their energy consumption to renewable sources. By increasing the proportion of solar, wind, or other clean energy in their electricity mix, banks can significantly reduce the carbon footprint of their physical branches and data centers. This practical step demonstrates a tangible commitment to sustainable operations.

43. (B) Human Resources — Require dedicated resources to tap opportunities.
Within the context of human resources, it is recognized that banks will need to allocate dedicated personnel and resources to effectively identify and capitalize on sustainable finance opportunities. This requires specialized training and recruitment strategies. Other suggestions, like mobilizing capital or including performance indicators, fall more appropriately under the categories of financial strategy and governance rather than human resource management.

44. (A) P-2, Q-1, R-4, S-3.
Reducing absolute emissions is achieved by increasing renewable energy use, while transitioning to low-carbon exposure involves gradually reducing loans to polluting industries. To move toward net-zero, banks should follow timelines aligned with national commitments. Finally, capacity building is the primary method used to help staff better understand the financial implications of climate risk and identify new sustainable business prospects.

45. (B) Only II and III.
Aligning climate-related financial disclosures with international frameworks is essential for improving the consistency and comparability of information across the global banking sector. However, the first statement is incorrect because a majority of banks have not yet successfully aligned their disclosures with these international standards. Currently, only a small number of institutions have implemented such comprehensive and standardized reporting practices.

46. (B) Actively manage risks to make portfolios more resilient.
Banks are advised to take a proactive approach by integrating climate factors into their risk management strategies to enhance the resilience of their loan and investment portfolios. This involves identifying vulnerabilities to physical and transition risks and taking steps to mitigate them. By actively managing these risks, banks can protect their financial health while supporting a broader transition to sustainability.

47. (A) Only I.
Most banks have recognized the importance of sustainability and have developed plans to decrease their absolute carbon emissions. However, the second statement is false because banks aim to increase, not decrease, the proportion of renewable energy in their sourced electricity. Transitioning to renewable energy is a primary strategy for reducing the environmental impact and long-term costs associated with traditional power.

48. (A) P-2, Q-3, R-4, S-1.
SFG stands for the Sustainable Finance Group, while DoR refers to the Department of Regulation within the central bank. ESG is the widely used abbreviation for Environmental, Social, and Governance factors. Finally, KPI stands for Key Performance Indicator, which is a metric used to evaluate success. These terms are foundational to the discussion of sustainability and climate risk in banking.

NODIA

16. (A) Sustainable Finance Group (SFG)
The survey aimed at assessing the status of climate risk management and sustainable finance within the banking sector was conducted by the Sustainable Finance Group. As a specialized unit within the central bank, this group focuses on developing regulatory frameworks that promote environmental responsibility. Their findings provide crucial insights into the readiness of financial institutions to handle evolving climate-related challenges.

17. (A) Most banks feel that their current staff is already fully equipped to handle climate risk implications without further training.
There is a widespread recognition that banking staff currently lack the specialized expertise required to navigate the complexities of climate-related financial risks and sustainable finance. Most institutions acknowledge that significant investment in capacity building is essential. Training programs are needed to help employees understand the financial implications of environmental factors and to effectively identify and manage new green business opportunities.

18. (A) Scheduled Commercial Banks.
The assessment of climate-related risks and sustainable finance practices was primarily focused on scheduled commercial banks. These institutions represent the core of the financial system and have the most significant exposure to various economic sectors. Understanding their current state of readiness is vital for the central bank to formulate effective regulatory policies that ensure the stability of the entire economy.

19. (D) Physical, transition, and liability risks.
To effectively manage climate-related challenges, banks must develop a thorough understanding of physical, transition, and liability risks. Physical risks involve direct damage from extreme weather events, while transition risks arise from the shift toward a low-carbon economy, including policy and technology changes. Liability risks occur when parties seek compensation for losses attributed to climate change, posing significant legal challenges.

20. (A) Deciding to gradually reduce their exposure in the coming years.
A common strategic response among banks to mitigate climate-related financial risks is the gradual reduction of exposure to high-carbon emitting or polluting industries. This phased approach allows banks to rebalance their portfolios toward more sustainable assets without causing sudden market disruptions. It reflects a growing awareness of the long-term financial risks associated with businesses that are not environmentally friendly.

21. (C) Announcing time-bound plans to become carbon-neutral.
While many banks acknowledge the importance of environmental issues and have launched initial green loan products, only a small number have committed to specific, time-bound plans for achieving carbon neutrality. Most institutions are still in the early stages of evaluating their carbon footprints and have yet to establish formal roadmaps for eliminating their net emissions in the foreseeable near future.

22. (B) January 2022.
The central bank initiated a comprehensive survey in January 2022 to evaluate how banking institutions were addressing climate-related financial risks and sustainable finance. This exercise was crucial for gathering baseline data on the industry's preparedness and strategic direction. The feedback collected during this period served as the foundation for subsequent reports and the development of future regulatory guidelines.

23. (D) To help in shaping the regulatory approach of the central bank.
Gathering feedback from financial institutions through surveys allows the central bank to understand the practical challenges and current progress in managing climate risks. This information is essential for designing effective regulatory and supervisory frameworks that are realistic and impactful. The ultimate goal is to ensure the financial system remains resilient while supporting the national transition toward a sustainable economy.

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While this practice is not yet widespread, it has been initiated by a few leading institutions.

58. (A) P-3, Q-4, R-1, S-2.
Improving governance involves including ESG KPIs in performance evaluations, while risk management requires grasping physical, transition, and liability risks. For disclosures, the recommendation is to align with internationally accepted frameworks to ensure consistency. In the area of human resources, the focus is on investing significantly in capacity building to equip staff with the necessary skills for sustainable finance.

59. (C) Both I and II.
Both statements are factually correct. The Sustainable Finance Group conducted the industry-wide survey in January 2022 to gauge the readiness of banks regarding climate-related risks. The subsequent report detailing the findings and providing an analysis of the results was released by the central bank in July 2022. These milestones are key dates in the development of sustainable finance regulation.

60. (A) P-3, Q-1, R-4, S-2.
In January 2022, the survey was conducted, and the resulting report was published in July 2022. India made its net-zero pledge at the COP26 Summit, providing a national target. Based on the survey findings, it was suggested that banks should aim to develop a roadmap for achieving carbon neutrality within a specific timeframe, often considered over the next twelve months.

61. (B) Only I, III, IV, and V.
Most statements correctly describe current trends: few banks have ESG strategies, capital mobilization is needed for green lending, and green deposits help fund eco-friendly businesses. However, statement II is incorrect because most banks have decided to gradually reduce, not increase, their exposure to high-carbon businesses. Reducing this exposure is a fundamental part of managing transition risks effectively and sustainably.

62. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Banks undoubtedly require dedicated resources to capitalize on climate change opportunities, and the primary way to develop these resources is through significant investment in staff capacity building. By training employees on climate risk, ESG, and sustainable finance, banks can ensure they have the expertise needed to identify and manage green projects. Thus, the need for training directly supports the resource requirement.

NODIA

63. (C) Only I, II, and IV.
Statements I, II, and IV correctly identify that banks are focusing on capacity building to understand climate risks, need significant investment in staff, and require dedicated resources for sustainability. Statement III is false because capacity building in this context must focus specifically on climate risk and ESG principles, rather than being redirected exclusively toward unrelated areas like general digital banking.

64. (C) Transition risk.
Transition risks arise from the process of adjustment toward a low-carbon economy. This includes changes in government policy, new regulations, and shifting market preferences that can impact businesses with high emissions. In this scenario, the potential for regulatory restrictions on high-emitting clients directly exemplifies a transition risk, as these changes could significantly affect the borrowers' ability to repay their loans.

65. (C) Assertion (A) is true, but Reason (R) is false.
The primary goal of climate risk surveys is to gather data that helps the central bank shape future regulatory and supervisory frameworks. These exercises are not designed to impose immediate financial penalties on banks. Instead, they provide a baseline understanding of industry progress and identify gaps where further action or support might be needed to ensure overall financial stability.

66. (A) Existing risk management framework.
To build a robust and effective strategy, banks should integrate climate change risks into their existing risk management frameworks. This approach ensures that environmental factors are treated as a core component of the bank's overall risk profile, alongside traditional risks like credit and market risk. Embedding these risks into

established processes allows for more consistent and comprehensive monitoring and mitigation.

67. (B) Only I, III, and IV.
Boards need mechanisms for ESG oversight, and banks must grasp physical, transition, and liability risks while aligning disclosures for global comparability. However, statement II is incorrect because the recommendation is to include, rather than exclude, KPIs on climate risk in top management evaluations. Inclusion ensures that leadership is held accountable for the institution's progress toward its internal and external sustainability goals.

68. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
India's commitment at the COP26 Summit to achieve net-zero emissions provides the national policy context that drives the banking sector to establish its own timelines. By working toward net-zero operations, banks align themselves with these national goals and demonstrate their contribution to the global climate effort. The national commitment serves as the primary justification for banks to formalize their roadmaps.

69. (A) Key Performance Indicators (KPIs) related to ESG.
To improve accountability and drive progress toward sustainability, it is suggested that banks introduce Key Performance Indicators related to environmental, social, and governance factors into executive appraisals. These metrics provide a quantifiable way to evaluate how well leadership is managing climate-related risks and advancing green initiatives. Including ESG goals in performance reviews ensures that sustainability becomes a priority at leadership levels.

70. (D) I, II, III, IV, and V.
All the provided statements are correct and reflect current industry recommendations. Banks aim to reduce operational emissions, and a small number have already planned roadmaps for carbon neutrality. Effective governance requires both board oversight and the inclusion of ESG-related performance metrics for senior management. Furthermore, establishing dedicated sustainability verticals is a key step toward bridging existing gaps in organizational structure.

71. (A) COP26 Summit.
The goal of achieving net-zero emissions is fundamentally aligned with the national pledge made by India at the COP26 Summit in Glasgow. This international forum set the stage for countries and their respective financial sectors to commit to long-term decarbonization. Banks that adopt net-zero targets are directly contributing to the fulfillment of these significant national and global climate objectives.

72. (B) Only I, II, and IV.
Survey results help guide regulation, some banks evaluate ESG for large loans, and data for assessing climate risk is often found to be insufficient. However, statement III is incorrect because green deposits have only been launched by a few banks, not most. While the concept is gaining traction, it has not yet become a standard offering across the majority of institutions.

73. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
It is true that only a few banks are currently quantifying their portfolio's climate susceptibility, and it is also true that almost all banks recognize the urgency of the issue. However, recognizing the urgency does not explain why quantification is limited. The lack of quantification is primarily due to technical challenges like data gaps and undeveloped methodologies rather than a lack of awareness.

74. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Aligning climate-related financial disclosures with international frameworks is a key recommendation for banks. The primary reason for this is to ensure that the reported information is consistent and can be easily compared with that of other financial institutions worldwide. Standardized reporting helps investors and regulators better understand the global landscape of climate risk and encourages greater transparency and discipline.

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75. (A) Only I, II, IV, and V.
Most of the statements are accurate: banks need to understand various risk types, a few are quantifying portfolios, data is insufficient, and integration into existing frameworks is recommended. However, statement III is incorrect because methodologies for measuring climate risks are generally found to be insufficiently developed in most banks, rather than being well-developed. This lack of maturity remains a challenge.

76. (A) Only I, II, and III.
Most banks have plans to reduce absolute emissions and increase renewable energy use, while a few have announced plans to become carbon-neutral soon. However, statement IV is false because moving toward net-zero emissions is entirely consistent with, rather than in contradiction to, India's commitments at COP26. These operational goals directly support the national strategy for a sustainable and resilient future.

77. (D) About a third.
Findings from the industry assessment indicate that approximately one-third of the surveyed banks have not yet assigned formal responsibility for climate-related initiatives to any specific board member or senior executive. This observation highlights a significant gap in corporate governance, as it suggests that sustainability concerns may lack the high-level oversight necessary for effective implementation and consistent strategic prioritization.

78. (A) Only I, III, and IV.
A survey was conducted in early 2022, and most banks recognize climate risk as a material threat and identify physical and transition risks as primary concerns. However, statement II is incorrect because board-level engagement was often found to be inadequate. Additionally, statement V is false because a majority of banks have not yet aligned their disclosures with international frameworks.

79. (D) Assertion (A) is false, but Reason (R) is true.
The assertion is false because a majority of banks do not currently have a separate business unit or vertical dedicated to sustainability and ESG initiatives. However, the reason is true, as only a small number of banks have formulated a clear strategy for embedding these principles into their core business operations. This highlights a significant lack of specialized organizational focus.

NODIA

80. (D) Assertion (A) is false, but Reason (R) is true.
Most banks actually felt that the available data was insufficient, making the assertion false. However, the reason is true, as methodologies to measure and monitor climate-related financial risks are indeed insufficiently developed. The combination of poor data and immature analytical tools represents a double challenge for the banking sector in effectively managing and reporting on environmental risks and sustainability.

81. (C) Renewable energy in sourced electricity.
Switching to solar power is a direct way for a bank to increase the proportion of renewable energy in its total electricity consumption. This initiative is a practical step toward reducing the absolute carbon emissions generated by daily operations. By sourcing cleaner energy, banks demonstrate their commitment to sustainable practices and contribute to broader national goals for reducing overall carbon footprints.

82. (A) Only I, III, and IV.
Correct observations include the timing of the survey in January 2022 and the recognition that physical and transition risks are primary material threats. However, statement II is false because board engagement is often found to be inadequate, and statement V is incorrect as most banks have not yet achieved alignment with international disclosure frameworks, which remains a priority.

83. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
There is a clear need for concerted effort in managing climate risk because current board-level engagement has been found inadequate in many leading banks. Without strong leadership and oversight at the highest level, it is difficult to implement the strategic changes necessary for addressing environmental challenges. The identified lack of engagement provides a strong justification for the call for action.

Basel, Switzerland.
II. It serves as a forum for central banks for collecting information and developing analyses.

Which of the above statement(s) is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2008

35. Match the BIC code components in List I with their respective character lengths in List II.
List I: (BIC Code Components)
P. Financial institution code length
Q. Country code length
R. Branch code length
S. Maximum BIC length
List II: (Character Lengths)
1. 3 characters
2. 11 characters
3. 2 characters
4. 4 characters
(A) P-4, Q-3, R-1, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-1, R-3, S-2
(D) P-3, Q-2, R-4, S-1

Oct/Nov 2013

36. Read the following statements about a Bank Run and select the correct option.
I. It occurs due to a sudden decline in depositor confidence.
II. A large number of withdrawals in a short period can deplete available cash.
III. The role of the Central Bank as Lender of Last Resort gains relevance when the bank suffers from a problem of insolvency.

Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

May/June 2015

37. What is the most appropriate description of why a bank run is particularly dangerous for a bank's survival?
(A) Cash reserve held is only a small fraction of total deposits.
(B) Because depositors withdraw funds exclusively through ATMs, overloading the network.
(C) Because it automatically leads to a sovereign downgrade in the Balance of Payments.
(D) Because the bank must instantly amortize and repay all its outstanding long-term liabilities.

Oct/Nov 2012

38. Match the banking terms in List I to their core functional verbs in List II.
List I: (Terms)
P. Backup System
Q. Bank Supervision
R. Bank Regulation
S. Amortization
List II: (Functional Verbs)
1. Framing and enforcing rules.
2. Overseeing individual banks for prudence.
3. Repaying debt in instalments.
4. Replacing the primary system.
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-3, R-2, S-1
(D) P-4, Q-2, R-1, S-3

May/June 2011

39. Read the following statements about Bank-wire and select the correct option.
I. It is owned by the Bank for International Settlements (BIS).
II. It offers a clearing service called Cash-wire that includes a settlement facility.

Which of the above statement(s) is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2020

40. Match the organizations/networks in List I with their characteristics in List II.
List I: (Organizations/Networks)
P. ACH
Q. SWIFT
R. BIS
S. BCBS
List II: (Characteristics)
1. Registration authority for BICs.
2. Established in 1930, based in Basel.
3. Facility to electronically combine, sort, and distribute inter-bank credits and debits.
4. An international committee of bank

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93. (D) Over the next 12 months.
Banks that are planning to become carbon-neutral have been suggested to develop a formal roadmap for this transition over a period of twelve months. This timeframe provides a structured period for assessing current emissions, identifying reduction strategies, and setting clear, measurable targets. Establishing a one-year window for planning helps ensure that the transition is well-managed and strategically sound.

94. (C) Incremental lending for sustainable finance.
Setting a specific goal to increase the volume of green loans in a portfolio is an example of establishing a target for incremental lending for sustainable finance. This approach focuses on the growth of new, environmentally beneficial lending activities. By focusing on incremental changes, banks can systematically shift their overall asset base toward more sustainable projects while supporting the global transition.

95. (A) An internationally accepted framework.
To ensure that its sustainability disclosures are useful to global stakeholders, it is essential for a bank to align its reporting with an internationally accepted framework. This standardization allows for consistency and comparability with other financial institutions worldwide. By using recognized global standards, the bank can demonstrate its transparency and commitment to meeting the expectations of international investors and regulators.

96. (B) Moving towards low-carbon operations.
Efforts to reduce the environmental impact of a bank's own physical branches, such as through energy efficiency or sourcing renewable power, are categorized as moving toward low-carbon operations. These actions focus on the bank's own carbon footprint rather than the emissions associated with its lending or investment portfolios. Improving operational sustainability is a key part of a comprehensive corporate strategy.

97. (A) Green deposits.
A deposit scheme specifically designed to raise funds for environment-friendly projects and businesses is known as a green deposit. This specialized financial product allows individuals and organizations to place their savings in accounts that the bank then uses to finance sustainable initiatives. Green deposits provide a transparent way for customers to support environmental causes through their choice of banking.

98. (B) Most banks.
The situation where processes and methodologies for measuring climate-related financial risks are not yet sufficiently developed is a common observation shared by most banks. This widespread challenge reflects the early stage of the industry's response to environmental issues. Significant work is still required across the banking sector to create the robust analytical tools needed to accurately assess and monitor these risks.

99. (D) Invest significantly in the capacity building of the bank staff.
To overcome a lack of expertise in sustainable finance, the most recommended approach for a bank is to invest significantly in the capacity building of its existing staff. This involves providing specialized training on climate-related risks, ESG principles, and the identification of green opportunities. Developing internal knowledge ensures that the bank can effectively integrate these considerations into core operations.

100. (D) Transition to a green future.
By combining initiatives to reduce polluting loans, launch green deposits, and set sustainable lending targets, a bank is actively positioning itself to tap the opportunities arising from the transition to a green future. This proactive approach helps the institution manage the risks of moving toward a low-carbon economy while supporting the growth of environmentally beneficial projects and sustainable models.

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commercial banks globally.
(B) It serves as a forum for central banks for collecting information.
(C) It provides certain financial services to central banks.
(D) It is based in Basel, Switzerland.

Oct/Nov 2007

18. What is the standard duration of a call money loan in the inter-bank call money market?
(A) 1 day
(B) 7 business days
(C) 14 calendar days
(D) 30 calendar days

May/June 2025

19. Which of the following is a correct statement regarding SWIFT in the context of BIC?
(A) SWIFT determines the specific efficacy of the Bank Rate for all financial institutions.
(B) SWIFT calculates the nation's Balance of Payments and international trade value.
(C) SWIFT acts as the Lender of Last Resort for international banks facing liquidity crises.
(D) SWIFT acts as the registration authority for Bank Identifier Codes (BICs).

Oct/Nov 2019

20. While Bank Regulation refers to a set of rules and regulations governing the structure and conduct of banking, what is the conceptual focus of Bank Supervision?
(A) Oversight of individual banks to ensure prudent operation per statutes and regulations.
(B) The electronic sorting and distribution of inter-bank debits.
(C) The provision of financial accommodation to state governments.
(D) The market-driven determination of call money rates for short-term funds in the overnight market.

May/June 2009

21. When differential rates are prescribed for sector-specific refinance facilities, the application of the Bank Rate is often confined to specific areas. Which of the following is NOT usually one of those areas?
(A) 'Ways and means advances' granted to State Governments
(B) Advances to primary co-operative banks for small-scale industries
(C) Consumer retail loan base rate calculations
(D) Penal interest rates imposed on shortfalls in reserve requirement norms

Oct/Nov 2011

22. Which of the following terms is sometimes used to describe Automatic Teller Machines (ATM)?
(A) Cash-wire settlement facility (CSF)
(B) Customer-bank communications terminal (CBC)
(C) Central banking communications unit (CBCU)
(D) Remote clearing house unit (RCHU)

May/June 2010

23. During a bank run, the role of the Central Bank as Lender of Last Resort gains relevance particularly when the affected bank suffers from which of the following conditions?
(A) Problem of insolvency but not liquidity
(B) Deficiencies in capital adequacy ratios
(C) Failure in structural bank regulation compliance
(D) Problem of liquidity but not insolvency

Oct/Nov 2024

24. Identify the incorrect statement regarding the historical application of the Bank Rate.
(A) In early years, financial accommodation from the Central Bank was largely provided at the Bank Rate.
(B) Application of the Bank Rate was confined to 'ways and means advances' granted to State Governments.
(C) It applied to advances to primary co-operative banks for small-scale industries.
(D) Subsequently, application of the Bank Rate was expanded to encompass all long-term retail mortgage loans.

May/June 2017

25. Which of the following statements about the Basel Committee on Banking Supervision (BCBS) is correct?
(A) It was established in 1930 as an independent global central bank.
(B) It is composed of bank supervisors from various countries including Belgium and Japan.
(C) It serves as the primary global registration authority for standardized Bank Identifier

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(B) ACH provides customer services like direct salary deposits and benefit payments.
(C) ACH requires the physical transfer of paper money and negotiable instruments between institutions.
(D) ACH networks are exclusively used for withdrawing cash analogous to ATM networks.

May/June 2019

9. Which of the following statements about the Balance of Trade is incorrect?
(A) It deals with imports and exports of goods and services over a given period.
(B) If imports exceed exports, the trade balance is considered favorable.
(C) It is a part of a nation's Balance of Payments.
(D) If exports of goods exceed imports, the trade balance is said to be favorable.

Oct/Nov 2006

10. In a Bank Identifier Code (BIC), how many characters are dedicated to the country code?
(A) Three characters
(B) Four characters
(C) Two characters
(D) Eight characters

May/June 2021

11. Which of the following is NOT an alternative term for Automatic Teller Machines (ATM)?
(A) Customer-bank communications terminal (CBC)
(B) Remote service unit (RSU)
(C) Point of sale terminal (POS)
(D) Both (A) and (B) are alternative terms.

Oct/Nov 2010

12. Which of the following describes the 'Call Money Rate'?
(A) The specific interest rate prescribed for various sector-specific refinance facilities.
(B) The penal interest rate imposed on shortfalls in reserve requirement norms.
(C) The rate for borrowing and lending short-term funds in the inter-bank market.
(D) The standard rate at which the central bank rediscounts commercial papers.

May/June 2005

13. Identify the correct statement regarding Bank-wire.
(A) It is an electronic communications network owned by an association of banks used to transfer messages.
(B) It is an accounting statement showing the money value of international transactions.
(C) It is a computer-controlled terminal located on the premises of financial institutions for cash withdrawals.
(D) It is an ISO technical code that uniquely identifies financial institutions.

Oct/Nov 2022

14. What primarily determines the efficacy of the Bank Rate as a monetary policy tool?
(A) The penal interest rates imposed by State Financial Corporations.
(B) The volume of preauthorized transfers processed by the Automated Clearing House.
(C) Bank dependence on the Central Bank and its influence on other interest rates.
(D) Mandatory statutory obligations like CRR and SLR maintained by co-operative banks.

May/June 2018

15. The Basel Committee on Banking Supervision (BCBS) is composed of bank supervisors from various countries. Which of the following countries is NOT a member?
(A) Luxembourg
(B) Sweden
(C) France
(D) Thailand

Oct/Nov 2016

16. What is an Automated Clearing House (ACH) primarily used for?
(A) To electronically combine and distribute inter-bank credits and debits.
(B) To replace the primary banking system in the event of a significant hardware failure.
(C) To act as a global forum for central banks for collecting information and developing analyses.
(D) To govern the structure and conduct of banking through specific framed rules and regulations.

May/June 2014

17. Which of the following is NOT a function or characteristic of the Bank for International Settlements (BIS)?
(A) It enforces banking statutes directly on

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CHAPTER 23

Glossary of Central Banking Terms

May/June 2016

1. In which year was the Bank for International Settlements (BIS) established?
(A) 1934
(B) 1949
(C) 1990
(D) 1930

Oct/Nov 2009

2. What is a primary reason for the demand for funds in the inter-bank call money market?
(A) State governments requiring 'ways and means advances'.
(B) Financial institutions financing international trade deficits.
(C) Banks needing to comply with statutory obligations like CRR and SLR.
(D) Primary co-operative banks seeking advances for small-scale industries.

May/June 2023

3. What is meant by the term Amortization?
(A) Oversight of individual banks to ensure prudent operation per statutes and regulations.
(B) A statement showing the money value of international transactions between one nation and the rest of the world.
(C) Repayment of debt in instalments over a period, covering principal and interest.
(D) A group of orders for payment or securities transfer to be processed together as a single unit.

Oct/Nov 2018

4. Identify the incorrect statement concerning a Bank Run.
(A) It is typically caused by a sudden and widespread decline in depositor confidence.
(B) A large number of withdrawals in a short period can deplete available cash.
(C) A bank keeps all deposits as cash on hand to easily survive a potential run.
(D) It can force a bank to close and possibly go out of business.

May/June 2007

5. Conceptually, how does the Balance of Trade differ from the Balance of Payments?
(A) Balance of Trade includes capital transfers, whereas Balance of Payments only includes goods and services.
(B) The part of Balance of Payments dealing with imports and exports of goods and services.
(C) A system that tracks individual transactions, while Balance of Payments tracks government agencies.
(D) Balance of Trade is computed for a specific time period, whereas Balance of Payments is a continuous statement.

Oct/Nov 2025

6. Under banking statutes, a Central Bank is often vested with extensive powers of supervision and control over various intermediaries. Which of the following is NOT typically included in this list?
(A) Commercial banks
(B) Sovereign wealth funds
(C) Co-operative banks
(D) Non-bank financial institutions

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May/June 2012

Which of the following best defines the concept of Authentication?
(A) A process of repayment of debt in instalments spread over a period.
(B) A security mechanism verifying user identity and authority level.
(C) A computerized facility used by depository institutions to distribute inter-bank credits.
(D) An electronic communications network used to transfer messages between subscribing banks.

Oct/Nov 2014

8. Identify the correct statement regarding the Automated Clearing House (ACH).
(A) ACH processes are limited to the settlement of international trade transactions.

Codes (BIC).
(D) It regulates the inter-bank call money market across its member nations.

Oct/Nov 2005

26. How is a 'Bank Note' defined?
(A) A technical code that uniquely identifies a financial institution globally.
(B) An accounting statement showing the sum of transactions of individuals against other nations.
(C) The standard rate at which the central bank is prepared to buy or rediscount eligible bills of exchange.
(D) Paper money issued by a bank acting as a promise to pay the bearer on demand.

May/June 2020

27. The Automated Clearing House (ACH) processes electronic transfers for several services. Which of the following is NOT typically one of these services?
(A) Real-time gross settlement of international corporate acquisitions
(B) Direct deposit of customers' salaries
(C) Preauthorized transfers
(D) Government benefit payments such as social security and welfare

Oct/Nov 2015

28. Under which section of the Reserve Bank of India Act, 1934 is the Bank Rate defined?
(A) Section 49
(B) Section 42
(C) Section 24
(D) Section 35

May/June 2013

29. Identify the incorrect statement regarding the Bank Identifier Code (BIC).
(A) A BIC consists of either eight or eleven characters.
(B) The location code in a standard BIC comprises exactly two characters.
(C) The branch code is a mandatory BIC component comprising three characters.
(D) The financial institution code comprises four characters.

Oct/Nov 2021

30. In the context of security mechanisms, Authentication serves to verify the identity of an individual and which other critical aspect?
(A) The overall financial solvency and creditworthiness of the entity in question.
(B) The geographical location of the remote service unit.
(C) The routing code of the inter-bank electronic transfer.
(D) The level of authority to perform specific activities.

May/June 2024

31. Arrange the following phases of the historical application of the Bank Rate in chronological order.
I. Application of Bank Rate confined to 'ways and means advance', primary co-operative banks, and penal rates.
II. Financial accommodation from the Central Bank largely provided at the Bank Rate.
III. Prescription of differential rates for various sector-specific refinance facilities.
(A) I, II, III
(B) II, I, III
(C) II, III, I
(D) III, II, I

Oct/Nov 2008

32. Which of the following pairs is incorrectly matched?
(A) CBC - Customer-bank communications terminal
(B) BIC - Banking Information Certificate
(C) RSU - Remote service unit
(D) ACH - Automated Clearing House

May/June 2006

33. What is the primary operational objective of a Backup System?
(A) To evaluate the creditworthiness of a borrower before amortization.
(B) To replace the primary system if it becomes unable to function properly.
(C) To act as a secure communication terminal between the banking customer and the branch.
(D) To clear large-value securities transactions exclusively for central banks.

Oct/Nov 2017

34. Read the following statements regarding the Bank for International Settlements (BIS) and select the correct option.
I. It was established in 1930 and is based in

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84. (C) Governance.
Appointing a board-level committee to oversee sustainability is a direct improvement to a bank's corporate governance structure. Governance involves the systems and processes by which an organization is directed and controlled. By establishing high-level oversight for environmental initiatives, a bank ensures that climate-related risks and opportunities are considered at the most strategic level of decision-making, fulfilling a key recommendation.

85. (C) Assertion (A) is true, but Reason (R) is false.
While it is true that a few banks have launched green deposits, the reason provided is incorrect. Green deposits are specifically intended to fund environment-friendly businesses and sustainable projects, not to increase exposure to high-carbon emitting industries. The primary purpose of these financial products is to support the transition toward a greener economy by reallocating capital to environmentally sustainable sectors.

86. (B) Physical risk.
Physical risks are those that result directly from the changing climate, such as damage to property or assets caused by extreme weather events like floods or droughts. In this case, the damage to agricultural assets due to severe weather is a classic example of a physical risk. These events can impair the value of collateral and the borrowers' repayment capacity.

87. (B) Only II, III, and IV.
Most banks lack a separate ESG vertical, and only a few have strategies for embedding ESG principles or incorporating climate risks into their existing frameworks. Statement I is incorrect because the majority of banks do not yet have a separate business unit for sustainability. These findings underscore that specialized strategic and organizational development in the area of sustainability is limited.

88. (B) Only I, II, IV, and V.
Key takeaways include the need for more action, the role of survey feedback in regulation, the importance of global disclosure standards, and the influence of COP26 targets. Statement III is false because social and governance aspects are not entirely ignored; they are actually being evaluated by some banks when reviewing large credit proposals as part of a holistic risk assessment.

89. (B) A majority of the banks.
Research and survey data show that a majority of banks currently do not have a separate business unit or dedicated vertical specifically for managing ESG and sustainability initiatives. This indicates that while the importance of these factors is growing, most institutions have not yet reached the stage of formalizing their internal structures to handle these responsibilities through specialized departments.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Banks are advised to align their climate-related disclosures with international frameworks primarily because this enhances the comparability and consistency of their reporting globally. Such alignment allows investors and other stakeholders to evaluate climate risks and opportunities across different banks using a standardized set of metrics. This transparency is vital for maintaining trust and making informed decisions in the global market.

91. (B) Low-carbon exposure.
By reducing loans to highly polluting industries and increasing support for environment-friendly businesses, a bank is actively transitioning its portfolio toward low-carbon exposure. This strategic shift is designed to mitigate the financial risks associated with carbon-intensive sectors while capitalizing on the growth of the green economy. Such actions represent a proactive approach to managing the impacts of the transition.

92. (C) Capacity building and data gaps.
The challenges faced by Alpha Bank, including inadequate data and a lack of staff expertise due to undeveloped methodologies, are primary examples of gaps in capacity building and data management. These hurdles prevent the bank from accurately assessing and reporting on climate-related financial risks. Addressing these deficiencies requires significant investment in data infrastructure and training programs for bank personnel.

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supervisors.
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-3, R-1, S-2
(D) P-3, Q-1, R-2, S-4

May/June 2022

41. Read the following statements regarding the Balance of Payments and select the correct option.
I. It is an accounting statement showing the money value of international transactions between one nation and the rest of the world.
II. It only includes the transactions of government agencies, excluding individuals and businesses.
III. It is computed for a specific time period.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Oct/Nov 2023

42. Which scenario best represents the application of Batch Processing (bulk payments)?
(A) Processing a single, high-value, real-time wire transfer for a corporate acquisition.
(B) Verifying the identity of an individual using a smart card at an ATM.
(C) A group of payment orders and/or securities transfer orders processed together.
(D) Repaying a home loan over twenty years in equal monthly instalments.

May/June 2016

43. Identify the correct pair representing a term and its relevant characteristic.
(A) Call Money Rate - Duration is typically 30 days.
(B) Balance of Trade - Favorable when exports of goods exceed imports.
(C) Bank Run - Always implies the insolvency of a bank.
(D) Bank Note - A digital promise issued by member depository institutions.

Oct/Nov 2009

44. Match the items in List I with their related descriptions in List II.
List I: (Terms)
P. Call Money Rate
Q. Bank Rate
R. Bank Regulation
S. Cash-wire
List II: (Descriptions)
1. Influences the cost of credit and refinance.
2. A clearing service that includes a settlement facility.
3. Duration is overnight (1 day).
4. Vests powers of supervision and control over banks.
(A) P-1, Q-3, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-3, Q-1, R-4, S-2

May/June 2023

45. Read the following statements regarding the Bank Rate and select the correct option.
I. It is defined under Section 49 of the Reserve Bank of India Act, 1934.
II. It influences the cost of credit and refinance extended to commercial banks.
III. Its efficacy depends entirely on the monetary policies of the Bank for International Settlements.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Oct/Nov 2018

46. Which feature most accurately characterizes a Bank Note?
(A) It is an electronic mechanism for clearing inter-bank transfers.
(B) A promise to pay the bearer on demand the amount stated on the note's face.
(C) It is a standard rate used to penalize shortfalls in CRR.
(D) An accounting statement that records a specific nation's total international trade value.

May/June 2007

47. Read the following statements regarding the Call Money Rate and select the correct option.
I. It is the rate at which long-term funds are borrowed in the inter-bank market.
II. Banks with surplus funds lend to those who are in need of funds to comply with

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payments electronically to millions of citizens. Which centralized system is the government utilizing to process these electronic transfers of benefit payments?
(A) Automatic Teller Machines (ATM)
(B) Automated Clearing House (ACH)
(C) Bank Identifier Code (BIC)
(D) Society for Worldwide Inter-bank Financial Telecommunication (SWIFT)

May/June 2018

99. The annual report of Country X contains a specific section highlighting the comparison between the exports and imports of goods. This refers to which concept?
(A) Call Money Market
(B) Automated Clearing House
(C) Amortization
(D) Balance of Trade

Oct/Nov 2016

100. The IT department of a bank has deployed a new computer application mechanism to verify staff identity and their ability to approve transfers. This is an example of which security concept?
(A) Bank Supervision
(B) Cash-wire settlement
(C) Remote service unit (RSU) access
(D) Authentication

NODIA

4. Bank Identifier Code

(A) P-1, Q-4, R-2, S-3
(B) P-3, Q-2, R-4, S-1
(C) P-2, Q-3, R-1, S-4
(D) P-2, Q-1, R-3, S-4

Oct/Nov 2010

54. Read the following statements regarding Bank Regulation and select the correct option.

I. The central bank derives its powers of supervision and control under national banking statutes such as the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949.
II. Bank Regulation solely applies to commercial and co-operative banks and explicitly excludes non-bank financial institutions.

Which of the above statement(s) is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

May/June 2005

55. Which of the following pairs is correctly matched?

(A) SWIFT - Acts as the registration authority for Bank Identifier Codes (BICs).
(B) Bank-wire - Regulates the structure and conduct of banking.
(C) Cash-wire - A computer-controlled terminal for cash withdrawals.
(D) Batch Processing - Repayment of debt in instalments.

Oct/Nov 2022

56. In the inter-bank call money market, how is the call money rate most appropriately determined?

(A) Market demand and supply between banks with reserve needs and those with surpluses.
(B) It is fixed on an annual basis by the international Basel Committee on Banking Supervision.
(C) It is legislated under the specific sections of the central bank's governing act.
(D) It is set based on the country's Balance of Trade surplus or deficit.

May/June 2018

57. Read the following statements about the Automated Clearing House (ACH) and select the correct option.

I. It is a computerized facility used by member depository institutions.
II. It distributes inter-bank credits and debits physically via couriers.
III. It processes electronic transfers of government securities and direct deposit of customers' salaries.

Which of the above statement(s) is/are correct?

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Oct/Nov 2016

58. Match the economic/banking concepts in List I with their key phrases in List II.

List I: (Concepts)

P. Balance of Payments
Q. Balance of Trade
R. Bank Run
S. Bank-wire

List II: (Key Phrases)

1. Caused by a sudden decline in depositor confidence.
2. Money value of international transactions between one nation and the rest of the world.
3. Electronic communications network owned by an association of banks.
4. Deals specifically with imports and exports of goods and services.

(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-1, Q-3, R-2, S-4
(D) P-2, Q-1, R-4, S-3

May/June 2014

59. Read the following statements regarding Authentication and select the correct option.

I. It verifies the identity of an individual, including verification by means of a computer.
II. It verifies the geographic location of the individual performing the task.

Which of the above statement(s) is/are correct?

(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct

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statutory obligations like CRR and SLR.
Which of the above statement(s) is/are correct?
(A) Only I is correct
(B) Only II is correct
(C) Both I and II are correct
(D) Neither I nor II is correct

Oct/Nov 2025

48. Match the terms in List I with their correct definitions in List II.
List I: (Terms)
P. Amortization
Q. Authentication
R. Batch Processing
S. Backup System
List II: (Definitions)
1. A security mechanism verifying identity and authority level.
2. A system designed to replace the primary system if unable to function.
3. Repayment of debt in instalments over a period.
4. A group of orders to be processed together.
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-3, R-1, S-2
(D) P-3, Q-4, R-2, S-1

May/June 2012

49. Identify the incorrect pair regarding the members of the Basel Committee on Banking Supervision (BCBS).
(A) Vietnam - Member country
(B) Switzerland - Member country
(C) United States - Member country
(D) Luxembourg - Member country

Oct/Nov 2014

50. Match the entities/networks in List I with their associated descriptions in List II.
List I: (Entities/Networks)
P. Bank for International Settlements (BIS)
Q. Basel Committee on Banking Supervision (BCBS)
R. ATM Networks
S. Automated Clearing House (ACH)
List II: (Descriptions)
1. Groups of banks sometimes share these located throughout various regions.
2. Composed of supervisors from countries like Belgium, Canada, and Spain.
3. Processes electronic transfers of government securities.
4. Based in Basel, Switzerland.
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-1, Q-3, R-4, S-2

May/June 2019

51. Read the following statements regarding Automatic Teller Machines (ATM) and select the correct option.
I. They are computer-controlled terminals located exclusively on the premises of financial institutions.
II. Customers may make deposits and withdrawals through them as they would through a bank teller.
III. Groups of banks sometimes share ATM networks located throughout various regions.
Which of the above statement(s) is/are correct?
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Oct/Nov 2006

52. Arrange the structural components of an 11-character Bank Identifier Code (BIC) in the correct sequential order from left to right.
I. Branch code
II. Financial institution code
III. Location code
IV. Country code
(A) II, III, IV, I
(B) IV, II, III, I
(C) II, IV, I, III
(D) II, IV, III, I

May/June 2021

53. Match the acronyms in List I with their full forms in List II.
List I: (Acronyms)
P. CBC
Q. RSU
R. ISO
S. BIC
List II: (Full Forms)
1. International Organization for Standardization
2. Customer-bank communications terminal
3. Remote service unit

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(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2024

66. Apex Commercial Bank borrows funds from Zenith Bank to meet immediate reserve requirements. What is the standard duration of the loan taken by Apex Commercial Bank from Zenith Bank under this arrangement?
(A) 1 day
(B) 7 business days
(C) 14 calendar days
(D) 30 calendar days

May/June 2017

67. Read the following statements regarding the components of a Bank Identifier Code (BIC) and select the correct option.
I. A financial institution code of four characters.
II. A country code of two characters.
III. A location code of two characters.
IV. An optional branch code of three characters.
Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only I, III and IV
(C) Only II, III and IV
(D) All I, II, III and IV

Oct/Nov 2005

68. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): The Bank Identifier Code (BIC) is an International Organization for Standardization (ISO) technical code.
Reason (R): SWIFT is the registration authority for BICs.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2020

69. Global Trust Bank is experiencing a sudden rush of withdrawals while holding substantial long-term assets. Why is it vulnerable to closing down despite holding solid long-term assets?
(A) Because the cash reserve a bank keeps on hand is only a small fraction of its total deposits.
(B) Because ATM networks are computer-controlled terminals that cannot process large withdrawals.
(C) Because its backup system is designed to replace the primary system only during hardware failures.
(D) Because the Call Money Rate has spiked unexpectedly, preventing short-term borrowing.

Oct/Nov 2015

70. Read the following statements regarding banking regulation and standards, then select the correct option.
I. BCBS is headquartered in Basel, Switzerland.
II. ISO is the International Organization for Standardization that standardized the BIC.
III. Bank Regulation extends to non-bank financial institutions.
IV. Bank Supervision involves oversight of individual banks.
V. The Banking Regulation Act, 1949 vests the central bank with supervisory powers.
Which of the above statement(s) is/are correct?
(A) Only I, II, III and IV
(B) Only I, III, IV and V
(C) Only II, III, IV and V
(D) All I, II, III, IV and V

NODIA

May/June 2013

71. The Central Bank has decided to increase a standard rate to control inflation, which will influence the cost of all refinance facilities. Which specific central banking term refers to the standard rate being increased in this scenario?
(A) Bank Rate
(B) Call Money Rate
(C) Amortization Rate
(D) Balance of Payments Rate

Oct/Nov 2021

72. Read the following statements regarding banking instruments and security, then select the correct option.

customer withdrawals. Why does the role of the Central Bank gain relevance in this specific situation?
(A) It must invoke Section 49 of the RBI Act to alter the Bank Rate for commercial entities.
(B) It regulates the Bank Identifier Code (BIC) for all international wire transfer operations.
(C) It acts as Lender of Last Resort to address liquidity problems rather than insolvency.
(D) It must take over the bank's Batch Processing and clearing systems for the interim period.

May/June 2016

85. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): In later years, the application of the Bank Rate was confined to specific advances such as 'ways and means advance' to State Governments.
Reason (R): This confinement was owing to the prescription of differential rates for various sector-specific refinance facilities.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2009

86. Read the following statements regarding bank oversight and select the correct option.
I. Bank Supervision ensures individual banks operate prudently.
II. Bank Supervision ensures operations accord with applicable statutes and regulations.
III. Bank Regulation involves framing rules governing the structure and conduct of banking.
IV. Development financial institutions are exempt from the supervision and control under Bank Regulation.
Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only I, III and IV
(C) Only II, III and IV
(D) All I, II, III and IV

May/June 2023

87. In the structure of the Bank Identifier Code (BIC) assigned to FinTech Corp, how many characters are allocated specifically to represent the country code?
(A) Three characters
(B) Two characters
(C) Four characters
(D) Eight characters

Oct/Nov 2018

88. Read the following statements regarding banking risks and operations, then select the correct option.
I. A Bank Run can deplete a bank's cash reserves because they are only a small fraction of its deposits.
II. Lender of Last Resort gains relevance when a bank faces liquidity problems, not insolvency.
III. Call Money demand arises from banks needing to comply with statutory obligations.
IV. Amortization instalments cover principal payments but exclude interest payments.
V. Bank-wire is an electronic communications network owned by an association of banks.
Which of the above statement(s) is/are correct?
(A) Only I, II, III and V
(B) Only I, II, III and IV
(C) Only I, III, IV and V
(D) All I, II, III, IV and V

May/June 2007

89. Global Trust Bank is experiencing a sudden rush of customers wanting to withdraw their deposits due to rumors about the bank's stability. While the bank has substantial long-term assets, its immediate cash on hand is limited. Based on this scenario, which central banking term accurately describes the event unfolding?
(A) Amortization
(B) Bank Run
(C) Balance of Payments crisis
(D) Batch Processing

Oct/Nov 2025

90. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): Authentication ensures the verification of an individual's level of authority.

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agencies.
V. A trade balance is favorable if imports exceed exports.

Which of the above statement(s) is/are correct?
(A) Only I, II, III and IV
(B) Only I, III, IV and V
(C) Only II, III, IV and V
(D) All I, II, III, IV and V

May/June 2015

79. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): Amortization involves the repayment of a debt in a single, lump-sum payment at the end of the term.
Reason (R): The instalments spread over a period cover both principal and interest payments.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2012

80. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): A large number of cash withdrawals in a short period can force a bank to close and possibly go out of business.
Reason (R): The cash reserve a bank keeps on hand is only a small fraction of its total deposits.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2011

81. Apex Commercial Bank is borrowing overnight funds from Zenith Bank. Which fundamental factor ultimately determines the interest rate that Zenith Bank will charge Apex Commercial Bank for this overnight loan?
(A) The Bank Rate as defined under the central banking act.
(B) The penal interest rates imposed by State Financial Corporations.
(C) Market demand and supply for funds between banks with reserve needs and those with surpluses.
(D) The various differential rates prescribed for specific sector-based refinance facilities provided.

NODIA

Oct/Nov 2020

82. Read the following statements regarding central banking terminology and select the correct option.
I. Call money rate applies to short-term funds borrowed for 1 day (overnight).
II. A Backup System replaces the primary system when it is unable to function.
III. SWIFT is the registration authority for Automated Clearing Houses.
IV. Cash-wire is a clearing service offered by Bank-wire.
V. Batch processing involves processing payment orders or securities transfer orders individually in real-time.

Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only I, II and IV
(C) Only II, IV and V
(D) All I, II, III, IV and V

May/June 2022

83. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): The role of the Central Bank as Lender of Last Resort gains relevance during a bank run.
Reason (R): A bank run implies that the affected bank suffers from a problem of insolvency.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2023

84. Global Trust Bank appeals to the Central Bank for assistance during a period of massive

(D) Neither I nor II is correct

Oct/Nov 2007

60. Match the entities in List I to the specific Bank Rate application or concept they are associated with in List II.

List I: (Entities)

P. State Governments
Q. Primary co-operative banks
R. Commercial banks with reserve shortfalls
S. Bearer of a Bank Note

List II: (Applications/Concepts)

1. Penal interest rates
2. Ways and means advance
3. Promise to pay on demand
4. Advances for small-scale industries

(A) P-4, Q-2, R-3, S-1
(B) P-2, Q-4, R-1, S-3
(C) P-2, Q-1, R-4, S-3
(D) P-1, Q-3, R-2, S-4

May/June 2025

61. Read the following statements regarding electronic banking services and select the correct option.

I. ACH processes direct deposit of customers' salaries.
II. ACH distributes inter-bank credits and debits electronically.
III. CBC and RSU are alternative terms used for ATM.
IV. ATM networks cannot be shared among groups of banks.
V. Preauthorized transfers are a service provided by ACH.

Which of the above statement(s) is/are correct?

(A) Only I, II, III and V
(B) Only I, II, IV and V
(C) Only II, III, IV and V
(D) All I, II, III, IV and V

Oct/Nov 2019

62. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): A Bank Note acts as a promise to pay the bearer on demand the amount stated on the face of the note.

Reason (R): This function of issuing paper money is performed primarily by commercial banks.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2009

63. Read the following statements regarding international trade and debt repayment, then select the correct option.

I. Amortization instalments cover only the principal payments.
II. Balance of Trade is that part of a nation's balance of payments dealing with imports and exports.
III. If exports of goods exceed imports, the trade balance is unfavorable.
IV. Trade in goods and services is evaluated over a given period for the Balance of Trade.

Which of the above statement(s) is/are correct?

(A) Only I and III
(B) Only II and IV
(C) Only I, II and III
(D) All I, II, III and IV

Oct/Nov 2011

64. FinTech Corp has been assigned a Bank Identifier Code (BIC). If FinTech Corp's assigned code is the maximum possible length including all optional components, how many characters does it contain?

(A) Eight characters
(B) Nine characters
(C) Eleven characters
(D) Ten characters

May/June 2010

65. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

Assertion (A): The efficacy of the Bank Rate as a monetary policy tool depends essentially upon commercial banks' dependence on the Central Bank for funds.

Reason (R): The Bank Rate influences the cost of credit, refinance, and other financial accommodation extended to commercial banks.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

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Reason (R): The level of authority refers to the ability of that person or entity to perform specific tasks or activities.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2012

91. A government uses an Automated Clearing House (ACH) for benefit payments. In addition to government benefit payments, what other customer service does this computerized facility typically provide?
(A) Issuance of Bank Notes
(B) Direct deposit of customers' salaries
(C) Providing ways and means advances to State Governments
(D) Rediscounting bills of exchange

Oct/Nov 2014

92. In the annual economic report of Country X, a detailed accounting statement shows the value of all transactions between its residents and the rest of the world. What is the central banking term for this comprehensive accounting statement?
(A) Balance of Trade
(B) Batch Processing Statement
(C) Balance of Payments
(D) Bank Regulation Ledger

May/June 2019

93. The Central Bank has increased the Bank Rate to control inflation. The efficacy of the Central Bank's rate adjustment in this scenario depends essentially on which factor?
(A) The operational efficiency and uptime of the Bank-wire electronic communications network system.
(B) The volume of transactions processed through the Automated Clearing House.
(C) The number of member countries participating in the Bank for International Settlements (BIS).
(D) Bank dependence on the Central Bank and its influence on other interest rates.

Oct/Nov 2006

94. The IT department of a commercial bank is scheduling a large volume of payment orders to be processed as a single group at the end of the business day. What term accurately describes this method of handling the large group of payment and securities transfer orders together?
(A) Backup System activation
(B) Bank-wire clearing
(C) Batch Processing (bulk payments)
(D) Amortization scheduling

May/June 2021

95. In its annual report, Country X finds that its exports of goods exceeded its imports. How is the trade balance described in central banking terminology?
(A) Favorable
(B) Unfavorable
(C) Amortized
(D) Insolvent

NODIA

Oct/Nov 2010

96. The Central Bank has adjusted the Bank Rate. Based on the historical shift in the application of this rate, which of the following groups or facilities would be directly impacted by the increased rate today?
(A) Long-term housing mortgage borrowers
(B) 'Ways and means advance' granted to State Governments
(C) Inter-bank overnight call money borrowers
(D) Foreign exchange importers settling Balance of Trade deficits

May/June 2005

97. By using an Automated Clearing House (ACH) to distribute credits and debits among member depository institutions, what underlying process does it fundamentally execute?
(A) It processes government security transfers and preauthorized electronic payments.
(B) It calculates and maintains the nation's comprehensive Balance of Payments accounting statement.
(C) It replaces the primary backup system for the central bank's local network.
(D) It regulates the structure and conduct of commercial and investment banking.

Oct/Nov 2022

98. A government decides to utilize a computerized facility to distribute social security and welfare

I. A Bank Note is synonymous with paper money issued by a bank.
II. The function of issuing a promise to pay the bearer is performed by central banks.
III. Authentication only verifies the identity of an individual and not their level of authority.
IV. Authentication can include verification by means of a computer application.

Which of the above statement(s) is/are correct?
(A) Only I, II and III
(B) Only I, II and IV
(C) Only II, III and IV
(D) All I, II, III and IV

May/June 2024

73. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): The demand for funds in the call money market arises from banks who need to comply with statutory obligations like CRR and SLR.
Reason (R): Banks with surplus funds lend these overnight funds to those in need.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Oct/Nov 2008

74. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:
Assertion (A): If imports of goods exceed exports, the trade balance is said to be unfavorable.
Reason (R): Balance of Trade is that part of a nation's balance of payments dealing with imports and exports of goods and services over a given period.
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

May/June 2006

75. Apex Commercial Bank is short on cash to meet its reserve requirements and borrows funds from Zenith Bank, which has a surplus. The transaction between Apex Commercial Bank and Zenith Bank takes place in which specific market?
(A) The Automated Clearing House market
(B) The Bank-wire settlement market
(C) The Balance of Trade market
(D) The Inter-bank Call Money market

Oct/Nov 2017

76. The Basel Committee on Banking Supervision (BCBS) comprises bank supervisors from several nations. Consider the following countries and select the correct option.
I. Germany
II. Italy
III. The Netherlands
IV. New Zealand

Which combination of these countries correctly lists members of the BCBS?
(A) Only I, II and III
(B) Only I, III and IV
(C) Only II, III and IV
(D) All I, II, III and IV

May/June 2008

77. FinTech Corp is a new financial institution that has been assigned a unique technical code to identify it globally in financial transactions. What is the specific term for the unique technical code assigned to FinTech Corp in this scenario?
(A) Automated Clearing House Code (ACHC)
(B) Basel Committee Code (BCC)
(C) Remote Service Unit Code (RSUC)
(D) Bank Identifier Code (BIC)

Oct/Nov 2013

78. Read the following statements regarding central banking and international trade, then select the correct option.
I. The Bank Rate is defined under Section 49 of the Reserve Bank of India Act, 1934.
II. Initially, financial accommodation from the central bank was largely provided at the Bank Rate.
III. BIS provides certain financial services to central banks.
IV. Balance of Payments includes transactions of individuals, businesses, and government

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ANSWERS

1. (D) 1930
Bank for International Settlements was established in 1930. It is based in Basel, Switzerland. It serves as a global forum for central banks, facilitating cooperation and information exchange. It also provides financial services to central banks. This institution is crucial for international monetary and financial stability through its various analytical and collaborative efforts.

2. (C) Banks needing to comply with statutory obligations like CRR and SLR.
The inter-bank call money market facilitates the borrowing and lending of short-term funds between banks, typically for one day. Banks with surplus funds lend to those facing shortages. This market is primarily driven by the need for commercial banks to maintain statutory obligations, specifically the Cash Reserve Ratio and the Statutory Liquidity Ratio.

3. (C) Repayment of debt in instalments over a period, covering principal and interest.
Amortization refers to the systematic process of repaying a debt through regular instalments over a predetermined period. Each payment made typically covers a portion of the principal amount along with the accrued interest. This financial method ensures that the entire loan is fully paid off by the end of the term, providing a structured repayment schedule.

4. (C) A bank keeps all deposits as cash on hand to easily survive a potential run.
A bank run occurs when a sudden loss of depositor confidence leads to a massive volume of withdrawals. Since banks operate on a fractional reserve system, they only hold a small portion of deposits as cash. They cannot satisfy all withdrawal requests simultaneously. Therefore, claiming that a bank keeps all deposits as cash on hand is incorrect.

5. (B) The part of Balance of Payments dealing with imports and exports of goods and services.
The balance of trade specifically focuses on the difference between the value of a country's exports and imports of goods and services over a certain period. In contrast, the balance of payments is a comprehensive accounting statement that includes all international transactions, such as capital transfers and investments, involving individuals, businesses, and government agencies.

6. (B) Sovereign wealth funds
Central banks are granted extensive powers of supervision and control over the banking system to ensure financial stability. This typically includes commercial banks, co-operative banks, and non-bank financial institutions. However, sovereign wealth funds are state-owned investment funds that operate differently and are not usually subject to the same direct supervisory oversight under standard national banking statutes.

7. (B) A security mechanism verifying user identity and authority level.
Authentication is a critical security mechanism used to confirm the identity of a person or entity accessing a system. It ensures that the individual is who they claim to be, often through passwords or biometrics. Furthermore, it is typically paired with authorization to verify the specific level of authority granted to that user, determining which tasks or activities they are permitted to perform.

8. (B) ACH provides customer services like direct salary deposits and benefit payments.
The Automated Clearing House is a computerized facility that electronically sorts and distributes inter-bank credits and debits. It is widely used for processing large volumes of transactions, such as the direct deposit of customer salaries and government benefit payments. This system eliminates the need for physical paper movement, streamlining various financial services for both banks and individuals.

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branch code is included to specify a particular office of the financial institution, the total length of the code reaches a maximum of eleven characters.

65. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
The bank rate is a significant tool for monetary policy because it directly influences the cost of credit and refinance facilities offered by the central bank. Its effectiveness in the broader economy depends on whether commercial banks are reliant on the central bank for funds. If they are, changes in the bank rate will successfully influence other interest rates.

66. (A) 1 day
When one commercial bank borrows from another to meet immediate reserve requirements, the transaction occurs in the inter-bank call money market. These loans are characterized by their extremely short duration, which is typically one day or overnight. This allows banks to quickly adjust their liquid positions to comply with statutory mandates like the Cash Reserve Ratio.

67. (D) All I, II, III and IV
The Bank Identifier Code is structured with specific segments for identification. It includes a four-character financial institution code, a two-character country code, and a two-character location code. Additionally, an optional three-character branch code can be added for more specific identification. All these statements correctly describe the various components that make up the standardized eight or eleven-character code.

68. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
The Bank Identifier Code is a technical standard established by the International Organization for Standardization. It is also true that SWIFT serves as the global registration authority for these codes. However, SWIFT's role as the registrar is a separate administrative fact and does not explain why or how the code was standardized by the ISO.

69. (A) Because the cash reserve a bank keeps on hand is only a small fraction of its total deposits.
Banks utilize a fractional reserve system where only a small portion of total deposits is kept as cash on hand, while the rest is invested in long-term assets. During a sudden rush of withdrawals, even a solvent bank with valuable assets can fail because it lacks sufficient liquid cash to pay all depositors immediately, leading to a liquidity crisis.

70. (D) All I, II, III, IV and V
The Basel Committee is based in Switzerland, and the ISO standardized the BIC. Bank regulation and supervision involve framing rules and overseeing individual institutions, including non-bank financial intermediaries. Furthermore, the Banking Regulation Act, 1949, provides the central bank with the necessary legal powers to perform these supervisory duties. All these statements are factually correct.

NODIA

71. (A) Bank Rate
The bank rate is the standard interest rate at which the central bank rediscounts commercial papers or provides refinance to banks. It is a fundamental tool for monetary policy. By increasing this rate, the central bank raises the cost of borrowing for commercial banks, which helps to curb inflation by reducing the overall money supply in the economy.

72. (B) Only I, II and IV
A bank note is paper money issued as a promise to pay the bearer, a function typically performed by central banks. Authentication is a security process that verifies the identity of an individual, while authority levels are managed through authorization. Since statement III wrongly claims that authentication does not verify authority levels, it is incorrect, while the other three statements are accurate.

73. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
It is true that banks demand funds in the call money market to meet statutory obligations like the Cash Reserve Ratio. It is also true that banks with surplus funds are the ones lending this money overnight. However, the fact that surplus banks lend funds is a description of the

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18. (A) 1 day
In the inter-bank call money market, funds are borrowed and lent for very short periods. The standard duration for a call money loan is one day, often referred to as overnight. Banks utilize this market to manage their daily liquidity needs and ensure they meet statutory obligations like the Cash Reserve Ratio through these high-speed, short-term transactions.

19. (D) SWIFT acts as the registration authority for Bank Identifier Codes (BICs).
The Bank Identifier Code is a standardized international code for identifying financial institutions. While the code is defined by the International Organization for Standardization, the Society for Worldwide Inter-bank Financial Telecommunication acts as the official registration authority. SWIFT manages the assignment and maintenance of these codes, ensuring that each financial entity can be uniquely identified globally during transactions.

20. (A) Oversight of individual banks to ensure prudent operation per statutes and regulations.
Bank regulation refers to the overarching framework of rules and statutes that govern the structure and conduct of the banking industry. In contrast, bank supervision focuses on the active oversight of individual financial institutions. This ensures that each bank operates prudently and remains in compliance with the established regulations, thereby protecting depositors and maintaining overall financial system stability.

21. (C) Consumer retail loan base rate calculations
Historically, the bank rate has been applied to specific areas such as ways and means advances for state governments and advances to primary co-operative banks for small-scale industries. It is also used to calculate penal interest rates for reserve shortfalls. However, consumer retail loan base rates are typically determined by market conditions and internal bank policies rather than the bank rate.

22. (B) Customer-bank communications terminal (CBC)
Automatic Teller Machines are advanced computer terminals that provide customers with access to various banking services without the need for a human teller. These machines are commonly referred to by alternative technical terms such as Customer-Bank Communications Terminals or Remote Service Units. They are often part of shared networks that allow for widespread accessibility across different geographic regions.

23. (D) Problem of liquidity but not insolvency
During a bank run, depositors withdraw funds rapidly, depleting the bank's cash reserves. The central bank's role as the lender of last resort becomes critical when a bank faces a temporary liquidity crisis but is otherwise solvent. By providing emergency funds, the central bank helps the institution meet withdrawal demands and prevents unnecessary failure due to cash shortages.

24. (D) Subsequently, application of the Bank Rate was expanded to encompass all long-term retail mortgage loans.
The bank rate was traditionally the primary rate for central bank financial accommodation. Over time, its application became more restricted due to the introduction of differential rates for various sectors. While it remains relevant for ways and means advances and penal rates, there is no historical precedent for expanding its direct application to all long-term retail mortgage loans.

25. (B) It is composed of bank supervisors from various countries including Belgium and Japan.
The Basel Committee on Banking Supervision is an international organization established by the central bank governors of the Group of Ten countries. It is composed of senior bank supervisors from countries including Belgium, Canada, France, Italy, Japan, Spain, and others. The committee focuses on developing global standards for bank regulation and supervision to enhance international financial stability.

26. (D) Paper money issued by a bank acting as a promise to pay the bearer on demand.
A bank note is a type of negotiable instrument that serves as paper money. It is issued by a bank, typically the central bank, and functions as a formal promise to pay the bearer the stated amount on demand. Bank notes are a fundamental part of a nation's currency system and are used for everyday financial transactions.

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27. (A) Real-time gross settlement of international corporate acquisitions
Automated Clearing Houses are designed for batch processing of various electronic payments. They handle high-volume, low-value transactions such as direct salary deposits, preauthorized transfers, and government benefit payments. Real-time gross settlement systems, on the other hand, are used for the immediate and individual processing of high-value corporate transactions, which is not the primary function of an ACH.

28. (A) Section 49
In India, the bank rate is formally defined under the Reserve Bank of India Act, 1934. Specifically, Section 49 of this act describes the bank rate as the standard rate at which the Reserve Bank is prepared to buy or rediscount eligible bills of exchange or other commercial paper. This rate serves as a benchmark for various financial operations.

29. (C) The branch code is a mandatory BIC component comprising three characters.
A Bank Identifier Code consists of several parts: a four-character financial institution code, a two-character country code, and a two-character location code. While the code can be eleven characters long, the final three characters represent the branch code, which is optional. Therefore, stating that the branch code is a mandatory component is incorrect according to ISO standards.

30. (D) The level of authority to perform specific activities.
Authentication is a two-fold security process. First, it involves verifying the identity of an individual or system attempting to gain access. Second, in conjunction with authorization, it helps confirm the specific level of authority assigned to that entity. This determines what actions they are permitted to take and ensures that sensitive financial tasks are only performed by authorized personnel within the system.

31. (C) II, III, I
Historically, central bank financial accommodation was initially provided largely at the bank rate. Subsequently, the system evolved to include differential rates for various sector-specific refinance facilities. This eventually led to the current phase where the application of the bank rate is confined to specific areas like ways and means advances, primary co-operative banks, and penal interest rates.

32. (B) BIC - Banking Information Certificate
The acronym CBC stands for Customer-Bank Communications Terminal, and RSU refers to Remote Service Unit, both of which are alternative terms for ATMs. ACH stands for Automated Clearing House. However, BIC actually stands for Bank Identifier Code, which is a unique technical code used for identifying financial institutions, not a Banking Information Certificate.

33. (B) To replace the primary system if it becomes unable to function properly.
A backup system is a critical component of a financial institution's technical infrastructure. Its primary operational objective is to ensure business continuity by replacing the primary system if it fails to function correctly. This redundancy prevents data loss and minimizes service disruptions, allowing the bank to maintain its operations during hardware failures or other significant system issues.

34. (C) Both I and II are correct
The Bank for International Settlements was established in 1930 and maintains its headquarters in Basel, Switzerland. It plays a vital role in the global financial system by serving as a forum where central banks can gather information and collaborate on economic analyses. Therefore, both the historical founding details and its functional role as an information hub are accurate.

35. (A) P-4, Q-3, R-1, S-2
A standard Bank Identifier Code consists of several specific segments. The financial institution code is four characters long. The country code consists of two characters, while the location code also has two characters. The optional branch code is three characters long. Together, these components can form a maximum length of eleven characters, ensuring unique identification of banks globally.

36. (A) Only I and II
A bank run is triggered by a sudden loss of confidence among depositors, leading to rapid

NODIA

cash withdrawals. This can quickly deplete the bank's available reserves since they only hold a fraction of total deposits as cash. While the central bank acts as the lender of last resort, this role is most relevant for liquidity issues, not necessarily insolvency.

37. (A) Cash reserve held is only a small fraction of total deposits.
Banks operate under a fractional reserve system, meaning they only keep a small percentage of their total deposits as liquid cash. Most of the funds are invested in long-term loans or assets. Consequently, if a large number of depositors attempt to withdraw their money simultaneously during a bank run, the bank lacks the immediate cash to satisfy all requests.

38. (D) P-4, Q-2, R-1, S-3
A backup system is designed to replace a failing primary system. Bank supervision involves the active oversight of individual institutions to ensure prudent operations. Bank regulation is the process of framing and enforcing rules for the entire industry. Finally, amortization is the specific financial method used for repaying debt through scheduled instalments over a period of time.

39. (B) Only II is correct
Bank-wire is an electronic communications network owned by an association of private banks, not the Bank for International Settlements. It provides a specialized clearing service called Cash-wire, which includes a settlement facility for its members. Therefore, while the second statement accurately describes its clearing functionality, the first statement regarding its ownership by the BIS is incorrect.

40. (D) P-3, Q-1, R-2, S-4
The Automated Clearing House is a facility for electronically distributing inter-bank credits and debits. SWIFT serves as the global registration authority for Bank Identifier Codes. The Bank for International Settlements was founded in 1930 and is based in Basel. The Basel Committee on Banking Supervision is an international body made up of various national bank supervisors.

41. (C) Only I and III
The balance of payments is a comprehensive accounting statement reflecting the money value of all international transactions between a nation and the rest of the world over a specific time period. It includes transactions from individuals, private businesses, and government agencies. Therefore, the statement claiming it excludes non-government entities is incorrect, while the other descriptions are accurate.

42. (C) A group of payment orders and/or securities transfer orders processed together.
Batch processing refers to the method where a large group of payment or securities transfer orders are collected and processed together as a single unit, rather than individually in real-time. This approach is highly efficient for managing high volumes of non-urgent transactions. It is a core function of systems like Automated Clearing Houses for handling bulk financial transfers.

43. (B) Balance of Trade - Favorable when exports of goods exceed imports.
The balance of trade is a measure of a country's exports and imports of goods and services. A trade balance is correctly described as favorable when the value of a nation's exports is greater than its imports. Other pairings are inaccurate, as call money duration is overnight and bank runs do not always imply that an institution is insolvent.

44. (D) P-3, Q-1, R-4, S-2
The call money rate applies to overnight borrowing in the inter-bank market. The bank rate is a benchmark that influences the cost of credit and refinance facilities provided by the central bank. Bank regulation gives authority to oversee and control financial intermediaries. Cash-wire is a specific clearing service that also provides a settlement facility for its network users.

45. (A) Only I and II
The bank rate is defined under Section 49 of the Reserve Bank of India Act, 1934, and serves to influence credit and refinance costs. However, its efficacy depends on the dependence of commercial banks on the central bank within its own country, rather than the policies of the

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9. (B) If imports exceed exports, the trade balance is considered favorable.
The balance of trade measures a country's exports and imports of goods and services. A trade balance is considered favorable only when the total value of exports exceeds the total value of imports. If imports are greater than exports, it results in a trade deficit, which is considered unfavorable. This metric remains a key component of the broader balance of payments.

10. (C) Two characters
The Bank Identifier Code is a standardized technical code used globally to uniquely identify financial institutions. It is defined by the International Organization for Standardization. In the structure of an eight or eleven-character code, the country code is represented by exactly two characters. These characters follow the four-character financial institution code and precede the location and branch codes.

11. (C) Point of sale terminal (POS)
Automatic Teller Machines are computer-controlled terminals that allow customers to perform banking transactions like withdrawals and deposits. Common alternative names for these units include Customer-Bank Communications Terminals and Remote Service Units. However, a Point of Sale terminal is a distinct device used primarily at retail locations to process payments for goods and services during transactions.

12. (C) The rate for borrowing and lending short-term funds in the inter-bank market.
The call money rate is the specific interest rate charged for borrowing and lending short-term funds in the inter-bank market. These transactions typically have a duration of only one day. The rate is determined by the market forces of demand and supply among banks seeking to manage liquidity or comply with mandatory statutory reserve requirement obligations.

13. (A) It is an electronic communications network owned by an association of banks used to transfer messages.
Bank-wire is a specialized electronic communications network owned and operated by an association of banks. Its primary function is the transfer of messages between participating financial institutions. Additionally, it offers a clearing service known as Cash-wire, which includes a settlement facility. This system facilitates secure and efficient communication and financial processing among members within the private banking network.

14. (C) Bank dependence on the Central Bank and its influence on other interest rates.
The bank rate serves as a key monetary policy tool defined under national banking statutes. Its effectiveness in controlling credit and inflation depends heavily on how much commercial banks rely on the central bank for funds. When banks are dependent on central bank refinance facilities, changes in the bank rate effectively influence the interest rates across the entire economy.

15. (D) Thailand
The Basel Committee on Banking Supervision is an international body composed of bank supervisors from various developed nations. Its members include representatives from countries such as Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Spain, Sweden, Switzerland, and the United States. Thailand is not a member of this specific committee, which is based at the Bank for International Settlements.

16. (A) To electronically combine and distribute inter-bank credits and debits.
An Automated Clearing House acts as a centralized computerized facility for member depository institutions. It is designed to electronically combine, sort, and distribute inter-bank credits and debits. This system is efficient for handling bulk transactions, including preauthorized transfers and the distribution of government benefit payments, thereby reducing the reliance on physical paper-based processing within the banking industry.

17. (A) It enforces banking statutes directly on commercial banks globally.
The Bank for International Settlements, located in Basel, Switzerland, serves as a forum for central banks to share information and develop analyses. It provides financial services to central banks and hosts committees like the Basel Committee on Banking Supervision. However, it does not have the legal authority to directly enforce banking statutes on commercial banks within sovereign nations.

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55. (A) SWIFT - Acts as the registration authority for Bank Identifier Codes (BICs).
SWIFT is officially designated as the registration authority for Bank Identifier Codes, managing their assignment globally. Other pairs are incorrect because Bank-wire is a communication network, not a regulatory framework. Cash-wire is a clearing service, not an ATM terminal. Batch processing refers to grouped transaction handling, which is distinct from the scheduled repayment process known as amortization.

56. (A) Market demand and supply between banks with reserve needs and those with surpluses.
The call money rate in the inter-bank market is not fixed by legislation or international committees. Instead, it is determined dynamically by the market forces of demand and supply. Banks with excess liquidity lend to those needing funds to meet reserve requirements. The interaction between these participants on a daily basis sets the prevailing rate for overnight funds.

57. (C) Only I and III
The Automated Clearing House is a computerized facility that processes electronic transfers for various services, including government payments and customer salary deposits. Because it is an electronic system, it distributes credits and debits digitally rather than physically via couriers. Therefore, the statement regarding physical distribution is incorrect, while the descriptions of its facility type and services are accurate.

58. (A) P-2, Q-4, R-1, S-3
The balance of payments records all international transactions for a nation. The balance of trade focuses specifically on the import and export of goods and services. A bank run is a crisis caused by a sudden loss of depositor confidence. Bank-wire is an electronic communication network that is owned and operated by an association of banks.

59. (A) Only I is correct
Authentication is a process used to verify the identity of an individual, often through computer-based mechanisms. While it also confirms the person's level of authority to perform specific tasks, it does not typically serve the primary function of verifying their exact geographic location. Thus, the first statement is correct, but the second regarding geographic verification is not a standard definition.

60. (B) P-2, Q-4, R-1, S-3
State governments receive financial accommodation through ways and means advances. Primary co-operative banks receive advances specifically for small-scale industries. Commercial banks with reserve shortfalls are subject to penal interest rates. The bearer of a bank note holds a document that represents a promise by the issuing bank to pay the stated amount on demand.

61. (A) Only I, II, III and V
Automated Clearing Houses handle direct deposits, electronic distributions, and preauthorized transfers. Terms like CBC and RSU are indeed synonymous with ATMs. However, ATM networks are frequently shared among different banks to improve customer access across various regions. Since statement IV incorrectly claims that these networks cannot be shared, it is excluded from the list of correct statements.

62. (C) Assertion (A) is true, but Reason (R) is false.
A bank note is indeed a formal promise to pay the bearer on demand and serves as paper money. However, in most modern economies, the authority to issue these notes is reserved for the central bank, not commercial banks. Therefore, while the definition in the assertion is correct, the reason attributing the issuance function to commercial banks is false.

63. (B) Only II and IV
The balance of trade deals with the imports and exports of goods and services over a set period. Amortization instalments cover both principal and interest, not just principal. A trade balance is considered favorable, not unfavorable, when exports exceed imports. Consequently, only the statements regarding the definition and evaluation period of the balance of trade are accurate.

64. (C) Eleven characters
A Bank Identifier Code can exist in two standard lengths. The basic version consists of eight characters, covering the institution, country, and location codes. If the optional three-character

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83. (C) Assertion (A) is true, but Reason (R) is false.
During a bank run, the central bank's role as the lender of last resort is vital for providing emergency liquidity. However, a bank run is primarily a liquidity crisis and does not necessarily mean the bank is insolvent. In fact, the central bank usually provides this support specifically to solvent banks facing temporary cash shortages to prevent their unnecessary failure.

84. (C) It acts as Lender of Last Resort to address liquidity problems rather than insolvency.
When a bank faces massive withdrawals, it experiences a liquidity crisis because it cannot quickly convert its long-term assets into cash. The central bank intervenes as the lender of last resort to provide the necessary funds. This support is crucial for addressing liquidity problems, helping the bank meet depositor demands and maintaining public confidence in the overall financial system.

85. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Historically, the application of the bank rate became more limited as the central bank began to prescribe various differential rates for different sector-specific refinance facilities. This shift meant the bank rate was no longer the sole rate for all accommodation. Instead, it was confined to specific areas such as ways and means advances for state governments and certain penal rates.

86. (A) Only I, II and III
Bank supervision involves checking individual banks for prudent operation and legal compliance, while bank regulation involves setting the rules for the industry. However, development financial institutions and other non-bank financial intermediaries are typically not exempt from these supervisory powers. Since the fourth statement incorrectly suggests their exemption, it is excluded from the list of correct statements.

87. (B) Two characters
A Bank Identifier Code is an international standard for identifying financial institutions. The structure of this code is very specific. It begins with a four-character code for the institution itself. Immediately following this is the country code, which always consists of exactly two characters. These are then followed by location and optional branch codes to complete the identifier.

88. (A) Only I, II, III and V
Bank runs can deplete fractional reserves, and the lender of last resort addresses liquidity. Call money demand is driven by statutory needs, and Bank-wire is an association-owned network. However, amortization instalments must include interest payments along with the principal. Because the fourth statement incorrectly excludes interest from amortization, it is false, while the other four statements are correct.

89. (B) Bank Run
A bank run occurs when a large number of customers lose confidence in their bank and rush to withdraw their deposits simultaneously. Even if the bank is solvent and holds solid long-term assets, it may not have enough immediate cash on hand due to fractional reserve banking. This specific event of mass withdrawals is what defines a bank run in financial terminology.

90. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
Authentication is a security process that involves identifying a person; authorization then confirms the specific level of authority. This level of authority defines what tasks or activities the user is permitted to perform within the system. Therefore, the reason correctly explains why verifying the level of authority is a fundamental part of the overall access control process.

91. (B) Direct deposit of customers' salaries
An Automated Clearing House is a centralized computerized facility designed to process bulk electronic transfers. Beyond government benefit payments like social security, it is extensively used by businesses for the direct deposit of employee salaries. This service provides a convenient and efficient way to transfer funds to a large number of recipients without using physical checks or cash.

92. (C) Balance of Payments
The balance of payments is a comprehensive accounting statement that records the value of all economic transactions between the residents of a

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market's supply side, not an explanation for why the demand arises.

74. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
A trade balance is indeed unfavorable when imports exceed exports. Furthermore, the balance of trade is correctly defined as the portion of the balance of payments dealing with the import and export of goods and services. While both statements are factually correct, the definition of the term does not explain the specific condition that makes a balance unfavorable.

75. (D) The Inter-bank Call Money market
The inter-bank call money market is the specific financial arena where banks borrow and lend funds to one another for short periods, usually overnight. This market is vital for banks that need to manage their daily liquidity and ensure they are in compliance with mandatory reserve requirements, such as the Cash Reserve Ratio, by borrowing from surplus banks.

76. (A) Only I, II and III
The Basel Committee on Banking Supervision consists of representatives from central banks and regulatory authorities from various nations. This includes Germany, Italy, and the Netherlands, among others like Belgium and Japan. However, New Zealand is not a member of this specific committee. Therefore, only the first three countries mentioned are part of the group that develops global banking standards.

77. (D) Bank Identifier Code (BIC)
A Bank Identifier Code is a standardized technical code used globally to uniquely identify financial institutions in automated transactions. Established by the International Organization for Standardization, these codes facilitate the secure and accurate routing of financial messages and transfers between banks. They are essential for identifying the specific entity involved in domestic or international financial exchanges.

78. (A) Only I, II, III and IV
The bank rate is defined in the RBI Act and was once the primary rate for accommodation. The BIS provides services to central banks, and the balance of payments includes transactions by various entities. However, a trade balance is considered unfavorable, not favorable, if imports exceed exports. Thus, the fifth statement is incorrect while the first four are accurate.

79. (D) Assertion (A) is false, but Reason (R) is true.
Amortization does not involve a single lump-sum payment at the end of a debt's term; instead, it is the process of repaying debt through a series of regular instalments. Each of these instalments is designed to cover both the principal amount and the interest over time. Consequently, the assertion is incorrect, but the reason accurately describes the instalment structure.

80. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
A bank run can lead to an institution's failure because a large number of withdrawal requests can quickly exhaust its available cash. This happens because banks operate under a fractional reserve system, keeping only a small portion of their total deposits as liquid reserves. Therefore, the lack of sufficient cash on hand directly explains why massive withdrawals are dangerous.

81. (C) Market demand and supply for funds between banks with reserve needs and those with surpluses.
The interest rate for overnight loans in the inter-bank call money market is not fixed by a central authority or specific legislation. Instead, it is determined by the prevailing market forces of demand and supply. The rate fluctuates based on how much surplus cash is available from lending banks relative to the needs of banks seeking to meet reserve requirements.

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82. (B) Only I, II and IV
The call money rate applies to overnight funds, and a backup system provides redundancy for failing primary systems. Cash-wire is indeed a clearing service offered by the Bank-wire network. However, SWIFT is the registrar for BICs, not ACHs, and batch processing handles groups of orders together, not individually in real-time. Thus, statements III and V are incorrect.

international Bank for International Settlements in Basel.

46. (B) A promise to pay the bearer on demand the amount stated on the note's face.
A bank note is a form of paper currency issued by a bank that acts as a formal and legally binding promise. It guarantees to pay the bearer of the note the specific amount printed on its face whenever it is presented for payment. This instrument is a fundamental part of a nation's circulating money supply and liquidity.

47. (B) Only II is correct
The call money rate is the interest rate for borrowing funds in the inter-bank market for a very short duration, typically overnight, not long-term. Banks with surplus liquidity use this market to lend to other banks that need immediate funds to comply with statutory reserve requirements, such as the Cash Reserve Ratio and Statutory Liquidity Ratio.

48. (B) P-3, Q-1, R-4, S-2
Amortization involves repaying debt in regular instalments. Authentication is a security mechanism for verifying identity, while authority levels are typically managed through authorization. Batch processing refers to handling a group of orders together as a single unit. A backup system is a secondary infrastructure designed to take over operations if the primary system fails to function, ensuring continuous banking services.

49. (A) Vietnam - Member country
The Basel Committee on Banking Supervision includes members from many developed economies such as the United States, Switzerland, Luxembourg, Germany, and Japan. Vietnam is not currently a member of this committee. The committee's composition is primarily focused on major global financial centers to establish international standards for bank regulation and supervision to ensure stability.

50. (C) P-4, Q-2, R-1, S-3
The Bank for International Settlements is based in Basel, Switzerland. The Basel Committee on Banking Supervision is composed of bank supervisors from nations like Belgium and Spain. ATM networks are frequently shared among groups of banks across various regions. The Automated Clearing House is responsible for processing the electronic transfers of various instruments, including government payments.

51. (B) Only II and III
Automatic Teller Machines allow customers to perform common banking tasks like deposits and withdrawals. These computer-controlled terminals are not exclusively located on bank premises; they are often found in various public locations. Furthermore, multiple banks often share ATM networks to provide broader access to their customers, making the first statement regarding exclusive location incorrect.

52. (D) II, IV, III, I
The standard structure of an eleven-character Bank Identifier Code follows a specific sequence. It begins with a four-character financial institution code, followed by a two-character country code. Next is a two-character location code, and it concludes with an optional three-character branch code. This sequential arrangement ensures that each bank and its branches can be uniquely identified worldwide.

53. (C) P-2, Q-3, R-1, S-4
CBC stands for Customer-Bank Communications Terminal, a name for ATMs. RSU stands for Remote Service Unit, another term for ATMs. ISO represents the International Organization for Standardization, which sets global standards. BIC stands for Bank Identifier Code, a unique technical code used to identify financial institutions globally during various types of electronic transactions and communications.

54. (A) Only I is correct
Bank regulation involves the framing of rules under national statutes like the Banking Regulation Act, 1949, to govern the banking sector. However, this regulatory framework is not limited to commercial and co-operative banks; it often encompasses various other financial intermediaries, including non-bank financial institutions. Therefore, the second statement claiming their explicit exclusion is incorrect.

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country and the rest of the world. This includes trade in goods and services, as well as capital transfers and investments. It covers transactions made by individuals, businesses, and government agencies over a specific period of time.

93. (D) Bank dependence on the Central Bank and its influence on other interest rates.
The bank rate is a monetary policy tool that influences the cost of credit. Its effectiveness in controlling inflation depends on how much commercial banks rely on the central bank for refinance. When this dependence is high, any change in the bank rate will effectively ripple through the financial system, influencing the interest rates that banks charge their own customers.

94. (C) Batch Processing (bulk payments)
Batch processing is a method of data handling where multiple payment orders or securities transfer orders are collected and processed together as a single group. This is typically done at scheduled times rather than processing each transaction individually in real-time. It is an efficient way for banks to manage high volumes of non-urgent, repetitive financial transfers and settlements.

95. (A) Favorable
In the context of the balance of trade, the relationship between a country's total exports and imports is categorized as either favorable or unfavorable. When the value of exported goods is greater than the value of those imported, the trade balance is described as favorable. This indicates that the nation is a net exporter over that specific period.

96. (B) 'Ways and means advance' granted to State Governments
Historically, the application of the bank rate was broad, but it has since been confined to specific financial areas. Today, it remains directly applicable to ways and means advances provided to state governments and for calculating penal interest rates on reserve shortfalls. It no longer serves as the primary benchmark for all long-term retail loans or overnight call money transactions.

97. (A) It processes government security transfers and preauthorized electronic payments.
The Automated Clearing House executes the electronic sorting and distribution of inter-bank credits and debits. Its fundamental processes include handling preauthorized transfers, direct deposits, and the electronic distribution of government payments. By automating these bulk transactions, the ACH system provides a secure and efficient alternative to traditional paper-based clearing methods for member depository institutions and their customers.

98. (B) Automated Clearing House (ACH)
Governments utilize an Automated Clearing House to distribute social security, welfare, and other benefit payments electronically. This computerized facility allows for the efficient processing of millions of transactions simultaneously. It acts as a central hub for member depository institutions to receive and distribute these credits to individual citizen accounts, bypassing the need for physical checks or paper-based systems.

99. (D) Balance of Trade
The balance of trade is the specific component of a nation's balance of payments that focuses on the difference between its exports and imports of goods and services. By comparing these values over a given period, economists can determine whether a country has a trade surplus or a trade deficit, which is a key indicator of its international economic position.

100. (D) Authentication
Deploying an application to verify the identity of staff members and their specific permissions is a classic application of authentication and authorization. This security concept ensures that only recognized individuals can access a system and that they only perform tasks for which they have been explicitly authorized. It is a critical safeguard for maintaining the integrity of sensitive financial operations.

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